

M&A IN HEALTHCARE

IMAP UK – Market Perspective

SECTOR OVERVIEW

Healthcare across its many subsectors has historically always been an attractive market for investors. Total healthcare expenditure in the UK market alone was c.£283 billion in 2022 employing c.1.8m people across health and social care meaning the underlying market is vast and for the most part resistant to consumer trends and the underlying economy.

So, whilst the economic headlines may be less than rosy, M&A in the sector has been remarkably resilient. We saw a drop a year on year drop of c.45% in UK overall M&A activity by value in 2023. However several things stood out:

- The eye catching headline is largely down to a lack of mega-deals
- While values were down, mid-market M&A volumes were far more resilient
- Healthcare M&A had another solid year with deal volumes actually above 2022 according to Mergermarket (albeit not by value)

This resilience is particularly evident as we look at Private Equity firms who have been far more cautious lately with new investments in other sectors dropping dramatically despite record amounts of committed capital, commonly referred to as “dry powder”. However, Private Equity recorded a total of 860 M&A investments in healthcare companies globally in 2022, second only to the all-time high set in 2021. So what are the key drivers?

KEY DRIVERS

The common theme across the board is technology. There is huge pressure on the market to deliver efficiency and productivity to achieve better outcomes on a limited budget. For the same reasons there is a huge focus on diverting resources toward preventive healthcare as the same pound spent achieves a vastly higher return from a health standpoint in primary healthcare than in the acute sector. Consequently, there has been a huge focus on data in order to find the efficiencies. This includes real time data from wearables, health apps and remote monitoring devices etc. as well as data analytics.

Earlier last year I advised on the sale of MBI Healthcare Technologies, an AI-backed provider of data quality services, to global quality assurance and risk management provider DNV. The interest in the business was staggering and the outcome for the shareholders exceptional due to their solution being so topical and relevant to the biggest challenges the UK healthcare sector currently faces.

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Karri Vuori

Managing Partner, IMAP UK



HEALTHCARE SECTOR TRANSACTIONS

Similarly, we've seen Cera pull off one of the largest and most successful fundraises (£263m from Kairos) in the UK healthcare market. Cera is fundamentally just a domiciliary care business but with a super charismatic founder and a sprinkling of clever technology it has convinced the market that it can dramatically increase efficiency in a largely manual and relatively low margin sector.

Another important emerging theme has been mental health and wellness. NHS England estimates the total economic and social cost to the UK of poor mental health to be c.£105 billion p.a. In keeping with the preventative care theme, companies focused on mental health services have been in high demand. Coupling that with technology gives you a very hot sub-sector. As an example, at IMAP we recently advised on the sale of Frankie Health to Unmind.

However, it is not all milk and honey in the world of healthcare and healthcare technology. The one sub-sector that has had a really tough time after a slew of exceptionally highly valued transactions is direct-to-consumer health tech, Babylon being the most high-profile fall from grace. After a £450m fundraising and subsequent New York IPO valuing Babylon in the billions, virtually all shareholder value has very rapidly been wiped out.

Where the emergence of AI at scale has already started changing the healthcare technology landscape the big thing to watch out for in 2024 is the Federated Data Platform (FDP). The contract was awarded to Palantir with much fanfare and will dramatically shake up the NHS data environment but nobody really knows yet the true impacts.

VALUATIONS

So, demand for healthcare transactions remains robust but what about valuations? These ultimately depend on the individual company and its sub-sector – a care home is unlikely to fetch the 7x Sales and 22x EBITDA of EMIS for example. Valuations across the board have ticked down somewhat from the high-water mark of 2021 primarily due to the increase in interest rates, however they have not deviated materially from historical averages. With inflation stabilising, the expected return of PE exits and an election year (with a near certain Labour victory and the associated prospect of potential changes to the Capital Gains Tax looming) and with still significant demand for healthcare assets, we expect to see the high volumes of healthcare M&A in 2024.



Karri Vuori is Managing Partner of IMAP UK and a highly experienced adviser to healthcare companies having advised, among others System C, Cymbio, Proximagen and MBI Healthcare Technologies on their sales. IMAP is a leading international M&A advisor to family and founder-owned businesses consistently ranked among the Top Ten globally for transactions valued up to \$500m.

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