

▶ M&A market report 1H 2020

Healthtech



A HEALTHCARE DATA REVOLUTION



As the digitalisation of healthcare accelerates, data volumes in the space are rapidly growing. Take genome sequencing: there is a lot more genomic data available now because collecting this data is cheaper and easier than before, thanks to increasingly effective clinical tools and instruments. As such, at the current rate, an estimated 20 exabytes of genomic data will be produced by 2025 – more than the data of Twitter, YouTube and astronomy combined.

With more data, healthcare players can tailor therapy selection, drug discovery and care delivery to the individual – thus focusing on prevention rather than treatment. However, as a result they now need new and improved tools in artificial intelligence (AI), machine learning (ML) and predictive and prescriptive analytics to comb through this massive pool of data. As such, we have seen the number of AI target rise exponentially as the early movers and pioneers of this space are becoming ripe for sale. The popularity of AI and analytics also illustrates a softening of the medical establishment's and patients' data privacy concerns.

PillPack integration disrupts pharma supply chain

Amazon's entry into the pharmaceuticals market through its \$750 million acquisition of in June signalled something big in store for the internet pharmacy. After officially launching the Amazon Pharmacy brand, Amazon swiftly integrated its target, which became known as "PillPack by Amazon Pharmacy".

However, the online pharmacy space is becoming increasingly competitive and faster shipping times alone may not be enough to convince customers to use Amazon over their brick-and-mortar drugstore or another mail-order pharmacy. Keenly aware of this, Amazon is continuing to innovate. At the end of 2019, PillPack saw the first direct integration with a payer's app: BCBSM, a Boston-based insurer, now allows its beneficiaries to order medications to their home through the Amazon integration in its app. This kind of access to consumers will bolster Amazon's position against incumbents such as Walgreen-Boots and CVS.



Amazon expands beyond pharmaceuticals

Now that it has established a solid footprint in the pharmaceuticals space, Amazon has set out to expand its presence in the healthcare market more generally. In October, Amazon acquired Health Navigator, a startup that creates software for online healthcare services. The company will become part of Amazon Care, the healthcare service for Amazon employees.

Last year, Amazon also entered a joint venture with JP Morgan and Berkshire Hathaway called Haven, which aims to lower the costs of healthcare for employees of the three companies.



M&A SUMMARY

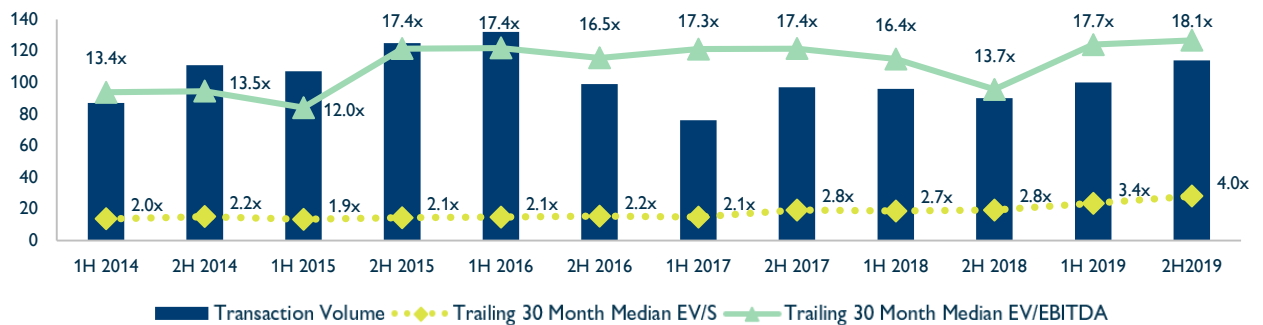
Growth in valuations retains momentum

Valuations in the healthtech space have been trending upwards consistently, as the trailing 30-month median EV/S multiple steadily increased from 1.9x EV/S in 1H2015 to 2.8x EV/S in 2H2018, subsequently peaking at 4.0x in 2H2019. Despite their past volatility, EBITDA multiples are currently very high, peaking at 18.1x in 2H2019, up from 17.7x in 1H2019. This growth in valuations has been driven by high valuations in the Healthcare Vertical Software segment – the largest subsector covered in this report.

Transaction volume continues to increase

Transaction volume has seen a healthy rebound with 114 transactions recorded in 2H2019 – a 14 per cent increase compared to 1H2019 and a 27 per cent increase compared to 2H2018. This upward trend since the significant dip in 2H2016 and 1H2017 has almost taken us back to the peak levels observed in 2015 and 2016.

Total number of Healthtech M&A transactions and valuation multiples by half-year, 2014-2019

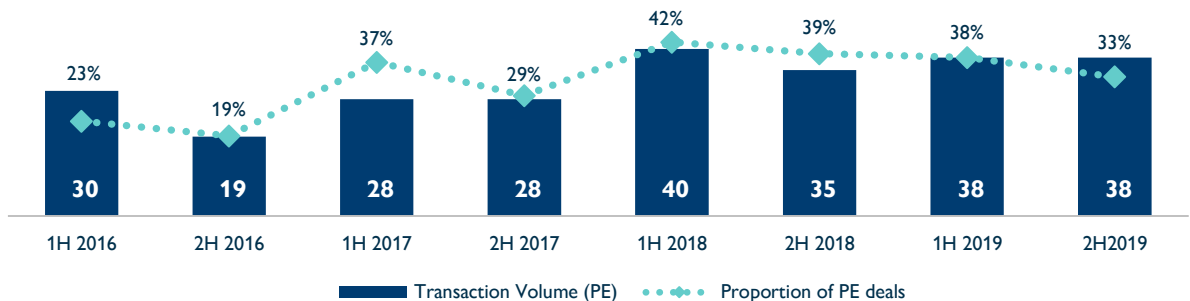


Private equity remains prominent buyer group

Private equity firms became increasingly active in the healthtech space in the run-up to 2018; however, the number of deals closed by financial buyers has since stabilised. Thus, given that the overall healthcare M&A market has continued to grow, the market share of financial buyers has decreased slightly.

That said, financial buyers still constitute a substantial part of the buyer universe and are expected to do so for the foreseeable future. Interest rates are not expected to rise soon, and access to cheap debt will continue to fuel these financial buyers' acquisition activity.

Total number of Healthtech M&A transactions and valuation multiples by half-year, 2015-2019



Our Healthtech report covers the two-and-a-half-year period between July 2017 and January 2020. All totals and median values refer to the entire period unless otherwise stated. Median multiples plotted in the graphs refer to the 30-month period prior to and including the half year.



ADOPTION OF AI DRIVES DEAL ACTIVITY

As early movers in the AI space mature and become ripe for acquisition, they have brought with them exponential growth in deal activity: the number of AI-related healthtech transactions has doubled every six months since the second half of 2017.

Transactions have taken place in various areas of the healthtech ecosystem, but most of the transactions on record targeted AI and tech focused on tackling mounting cost pressures and inefficiencies across the healthcare industry.

Waystar drives process efficiency through AI

Waystar is a provider of revenue cycle technology that leverages predictive analytics and AI in order to automate manual tasks, streamline business processes and lower costs for healthcare providers. It is also one of the most prolific acquirers to have focused its acquisition strategy on AI.

In July 2019, under the ownership of Bain Capital, Waystar acquired Digitize.AI, a company which leverages AI and ML to automate prior authorisations from payers, resulting in faster decisions at lower costs and with fewer denials. It automatically submits new cases to payers directly, monitors payers' responses and enters them into providers' EHR systems once authorised. In addition, Waystar acquired PARO,

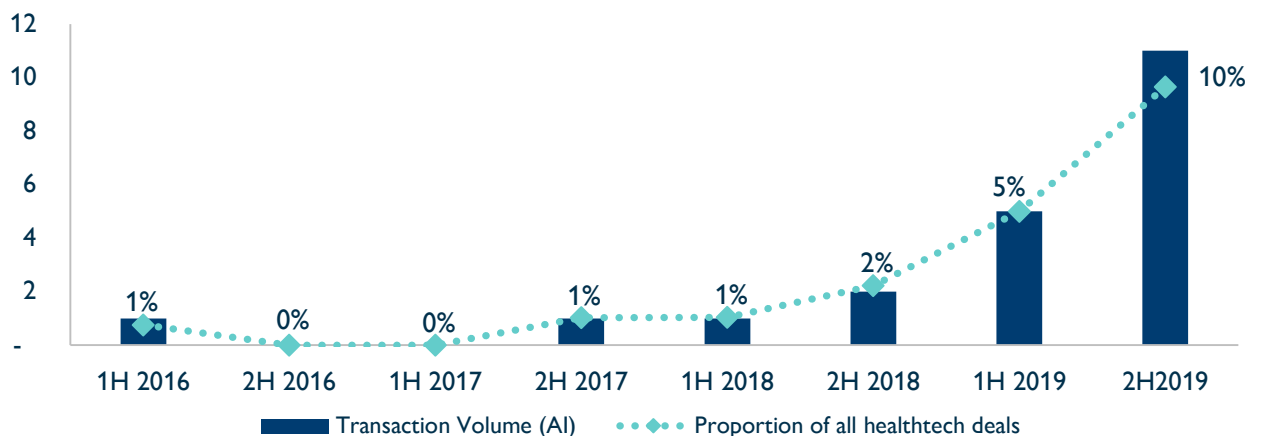
which provides a predictive analytics solution for non-profit hospitals that assesses whether patients qualify for charity under a provider's financial assistance policy.

Shortly after completing these two deals, Swedish PE firm EQT and the Canadian Pension Plan Investment Board (CPPIB) jointly acquired an undisclosed majority stake in Waystar, valuing the combined entity at \$2.7 billion. Bain Capital retained a minority stake after the transaction.

Backed by these two new growth investors, Waystar hasn't been resting on its laurels. In December, Waystar further strengthened its AI capabilities by acquiring Recondo Technology, which provides advanced robotic process automation for healthcare and insurance benefits payment processing, enrolment management and compliance SaaS.



Share (%) of Artificial Intelligence deals in Healthtech, 2016-present



AI instrumental in precision and prevention

AI transactions in healthtech have also been driven by the ongoing transition to precision and prevention-based medicine to reduce healthcare costs, as illustrated by the acquisition of VitreosHealth by HMS Holdings, a provider of healthcare cost containment services. VitreosHealth offers AI-enabled predictive and prescriptive analytics using data from sources including EHR, claims and health risk assessments to allow clinicians and health plan administrators to identify and address care gaps. The acquisition is highly strategic given that HMS had already been using VitreosHealth's analytics engine to identify, predict, and avoid preventable high-cost events prior to the transaction.



Meanwhile, the \$50 million acquisition of Clear Genetics by Invitae, a provider of genetic testing services focused on identifying hereditary conditions, illustrates how both process efficiency and risk prevention factors drive acquisitions. Clear Genetics provides AI-enabled genetic testing workflow automation SaaS, which allows users to automate patient consent, test ordering and results delivery; as well as an automated chatbot for patients. This will help Invitae streamline the user experience for customers and clinicians alike, delivering the level of patient-centricity necessary to stimulate widespread adoption of genetic testing.

Nascent deal activity in bioinformatics

In addition to acquisitions aimed at process efficiency and efficacy, 2H2019 saw some transactions in the bioinformatics space. Several big tech acquirers have proven keen to strengthen their AI/ML capabilities in the field of genomic data analysis – a key enabler of precision medicine.

Shortly after announcing its new strategy to focus on AI-driven drug discovery in May 2019, NEC acquired Norwegian bioinformatics SaaS provider Oncolmmunity. The company utilises ML to facilitate effective patient selection for cancer immunotherapy and identify optimal targets for personalised cancer vaccines and cell therapies.

The reporting period also saw NVIDIA acquire Parabricks, which speeds up the process of analysing entire genomes from days to less than an hour. This capability addresses a critical challenge as data analysis has become a major bottleneck in bioinformatics given the vast amounts of health and medical data produced.



Reducing both time and cost of genomic analysis will be key in the transition to precision medicine. Moving forward, we expect appetite for targets that address these issues to increase.



TOP ACQUIRERS – PAST 30 MONTHS

Philips remains the most prolific acquirer in the space, though it has slowed down its acquisition activity slightly. The Dutch healthcare giant completed six acquisitions in the past 30 months prior to January 2020, compared to eight acquisitions in the 30 months prior to July 2019.

Harris, part of diversified software conglomerate Constellation Software, has also been less acquisitive

than it used to be. The company completed four acquisitions in the space during the 30 months prior to January 2020, compared to six acquisitions in the 30 months prior to July 2019.

This caused the firm to lose its second place in the ranking to TabulaRasa, which has maintained momentum when it comes to acquisition activity.

Acquirers	Acquisitions in 30 months	Three most recent acquisitions
 PHILIPS	6	Carestream Health medical image management SaaS Blue Willow Systems senior living facility safety SaaS & sensors VitalHealth healthcare management software
 TABULARASA HEALTHCARE	5	PrescribeWellness pharmacy engagement management SaaS DoseMe individualised medication dosing SaaS Cognify EHR management SaaS
 REVINT SOLUTIONS	4	Washington & West healthcare denials & appeals management AcuStream Inc. healthcare charge capture auditing SaaS CloudMed Solutions healthcare diagnosis validation SaaS
 FP FRANCISCO PARTNERS	4	Orchard Software Corporation laboratory info management SaaS Qualcomm Life medical data networking systems Connecture Inc. insurance sales automation SaaS
 varian	4	Noona Healthcare oncology treatment tracking SaaS & mobile apps humediQ global surface-guided radiation therapy software & hardware Evince Innovation clinical decision support SaaS
 Mediware	4	Rock-Pond Solutions healthcare and pharmaceuticals analytics SaaS BlueStrata EHR electronic health record management SaaS Fazzi Associates home health & hospice BPO
 HARRIS	4	Iatric Systems healthcare IT systems integration Clinix Medical medical EDI transaction processing SaaS MorCare medical case management SaaS
 Allscripts	4	HealthGrid Corp mobile-based patient engagement SaaS Evalytica healthcare analytics SaaS Practice Fusion online EHR management software



TOP TRENDS & LARGEST TRANSACTIONS

Several landmark transactions were announced in every reporting period since early 1H2017, but 2H2019 was notably quiet in comparison. Apart from multi-billion-dollar blockbuster deals – e.g. Dassault’s acquisition of Medidata Solutions in June 2019, and Vertitas Capital and Evergreen Coast Capital’s joint acquisition of athenahealth in November 2018, each for a total of approximately \$5.7 billion – every reporting period since 2H2015 has seen at least one \$1 billion+ deal.

InterActiveCorp pays premium for Care.com

With a transaction value of \$500 million, InterActiveCorp (IAC)’s acquisition of Care.com is the largest disclosed transaction on record in 2H2019. Care.com provides a global platform that matches families with caregivers in the rapidly growing but highly fragmented market for family care, estimated to exceed \$300 billion in the US alone. IAC intends to leverage its expertise of other verticals in its portfolio to accelerate Care.com’s growth and extend the platform into adjacent areas such as pet and home care. The 34 per cent premium paid signals IAC’s appetite for a foothold in the healthcare space and eagerness to capitalise on growth in this market.

LARGEST DISCLOSED DEALS OF 2H2019

\$500 million 20 Dec	InterActiveCorp acquires Care.com
\$430 million 26 Sep	Veeva Systems acquires Crossix Solutions
\$370 million 04 Sep	Stryker Corporation acquires Mobius Imaging LLC
\$250 million 10 Oct	Frazier Healthcare Partners acquires MedData

- Mounting **cost pressures** drive transition to **prevention** and **precision**
- **Exponential growth in AI** deal activity across all healthtech segments
- Nascent deal activity in **bioinformatics**
- **Disruption** in the pharma supply chain, particularly due to Amazon
- **Private equity** buyers remain very active in the sector
- Valuations trend upwards, reaching **peak levels**

Veeva Systems expands into new verticals

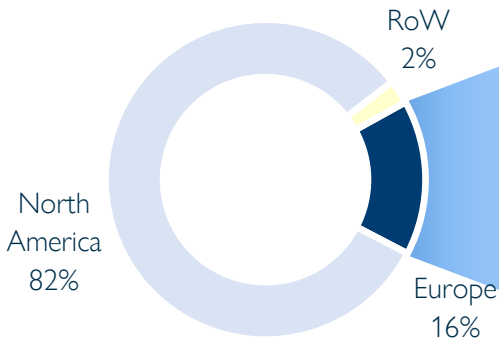
For Veeva, which focuses on CRM and content/document management SaaS for the life sciences and pharmaceutical industries, acquiring Crossix was a means to gain access to adjacent markets where it can deploy its existing capabilities. Crossix provides customer analytics and market intelligence SaaS to optimise marketing spend the healthcare and pharma sectors. This will allow Veeva to give its pharma client access to new data assets containing data on both patients and consumers.



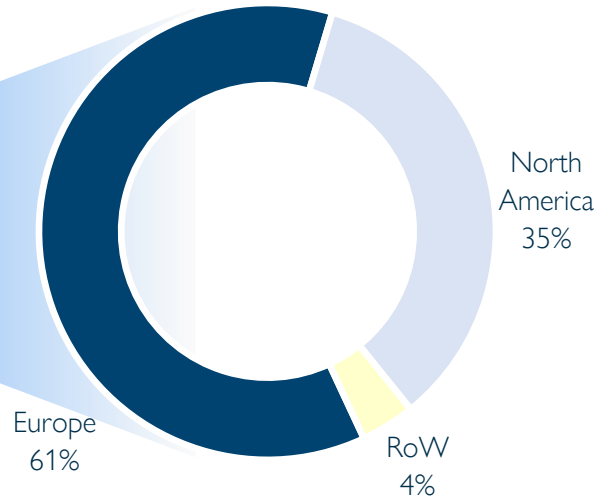


SUB-SECTOR & GEOGRAPHICAL BREAKDOWN

Headquarters of Healthtech targets



Headquarters of acquirers of European targets



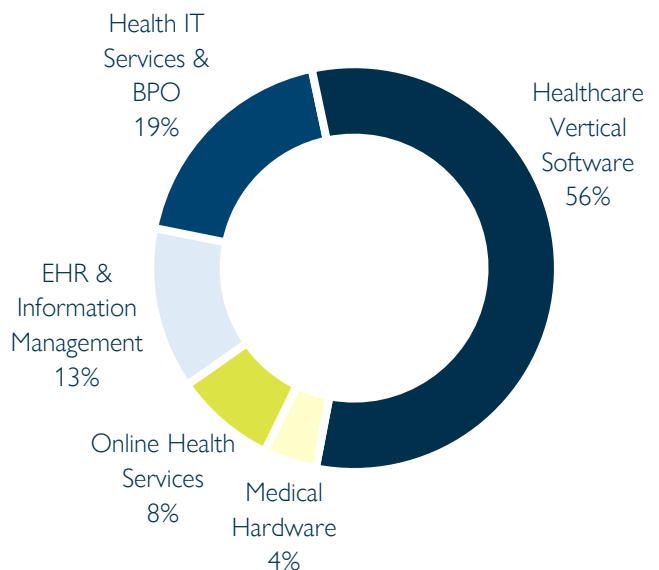
61%



European investors recorded another dominant half-year of deal-making within their region, as 61 per cent of European targets were bought by European acquirers, while 35 per cent were bought by North American acquirers.

Meanwhile, North American targets have maintained their majority share of global M&A activity in healthtech, accounting for over 82 per cent of all deals.

- **Healthcare Vertical Software**
 Healthcare-specific software relating to hospital management, patient analytics or pharmaceuticals.
- **Health IT Services & BPO**
 Connectivity systems and outsourcing destined to improve practice and patient experience.
- **Online Health Services**
 Internet-hosted services for patients, e.g. e-pharmacies, online health resources, e-learning platforms.
- **EHR & Information Management**
 Electronic health and medical records, data management systems and software.
- **Medical Hardware**
 High-tech medical devices. *NB: Medical Hardware is not explored in depth in this report, as the deal pool is too limited to offer any accurate conclusions.*



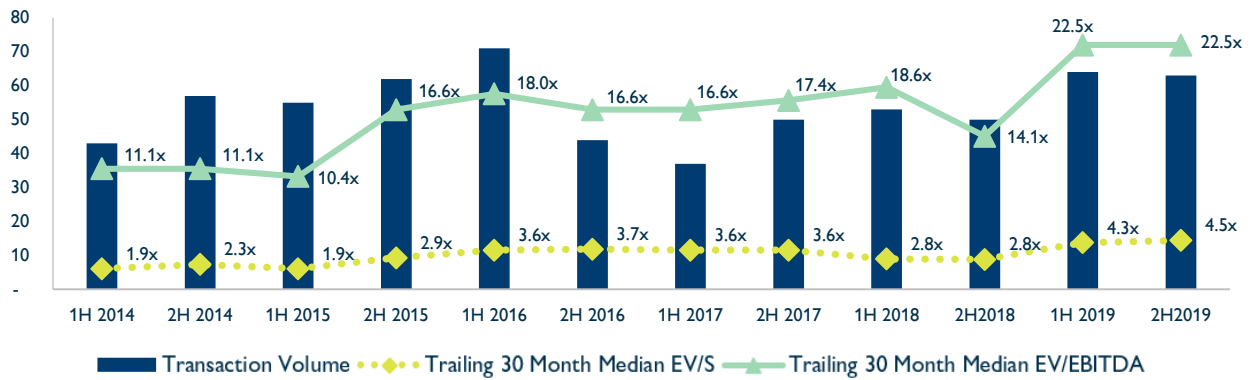
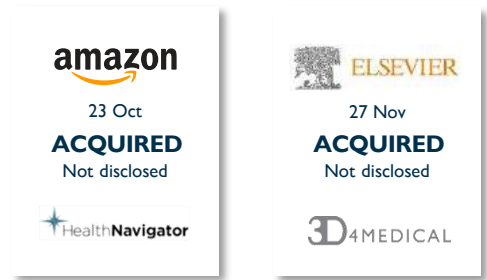


HEALTHCARE VERTICAL SOFTWARE

Sub-sector overview

Already the largest subsector within the healthcare space, healthcare vertical software continued to see rising transaction volumes in 2H2019. Ever since facing a significant decrease in 2H2016 and 1H2017, transaction volume has seen an upward trend overall. The number of deals in the subsector grew by 26 per cent compared to the same period last year, and the full year 2019 saw the highest transaction volume on record. Valuations also inched up slightly from 4.3x in

1H2019 to 4.5x in 2H2019, with both the revenue and EBITDA multiple now at a record high



Walmart acqui-hires healthtech talent

Compared to landmark Pillpack acquisition by Amazon, Walmart has taken smaller steps to bolster its own presence in the online pharma space. In July, its Walmart Labs subsidiary acqui-hired Indian healthtech startup FloCare, which provides a mobile application for home healthcare clinicians to manage their productivity. The transactions was part of a bigger acqui-hire move in India that also involved BigTrade, which provides a wholesale trading platform. Walmart will leverage its newly acquired engineering capabilities to develop its omnichannel customer experiences for users of its online pharmacy platform.



AI-driven deal activity clinical trials

The acquisition of Comprehend Systems by Saama Technologies is one of the first AI deals in the clinical trials space. Comprehend's AI-based clinical trial data analytics SaaS solution complements Saama's existing cloud platform, which integrates and curates structured and unstructured clinical intelligence data.

Their combined capabilities tie into the shift to precision medicine and will empower biopharma companies to obtain clinical insights in days instead of months in order to accelerate drug development and to deliver actionable insights across therapeutic areas.



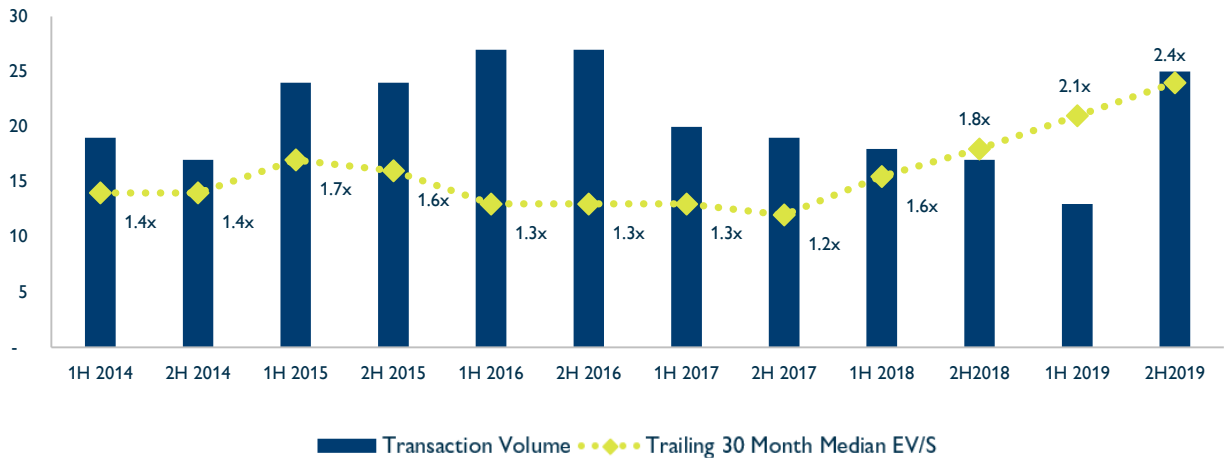


HEALTH IT SERVICES & BPO

Sub-sector overview

2H2019 saw a strong rebound in terms of transaction volume, which almost doubled compared to 1H2019 following a dip in the number of transactions between 2H2016 and 1H2019.

As transaction volume almost reached peak levels seen in 2016, valuations continued the upward trajectory we've seen since mid 2017.



Big-ticket deals drive rising valuations

In 2018, the \$4.3 billion acquisition of cost management and billing services provider Colviti by Verscend Technologies/Veritas Capital for an astronomical 6.6x EV/S considerably boosted median valuations in the market. The valuation was significantly above market, possibly owing to a recent 15 per cent increase in the target's TTM sales. The transaction remains the largest acquisition in the subsector to date.

In June 2019, the \$1.1 billion acquisition of WageWorks by Health Equity for 2.4x EV/S – the second largest transaction on record – continued to push valuations further upwards.

Given that rising valuations have been driven by a handful of exceptionally large transactions such as these, it is likely that median valuations in the space will normalise in forthcoming reporting periods.

Disclosed deals few and far between

MEDNAX's sale of MedData Inc. for \$250 million was the only notable disclosed transaction on record in the space in 2H2019. MEDNAX originally acquired MedData, which provides outsourced medical billing and medical bill coding services as well as outsourced call center services in the US, in 2014. The sale – to Frazier Healthcare Partners, an American private equity and venture capital firm that focuses on the healthcare industry – will help MEDNAX focus on its core physician services business.

<p>FRAZIER HEALTHCARE PARTNERS</p> <p>10 Oct</p> <p>ACQUIRED</p> <p>\$250 million</p> <p>MedData</p>	<p>NTT DATA</p> <p>18 Dec</p> <p>ACQUIRED</p> <p>Not disclosed</p> <p>ETE</p> <p>NET RESOLUTIONS CORP</p>	<p>Alithya</p> <p>16 Dec</p> <p>ACQUIRED</p> <p>Not disclosed</p> <p>Travercent</p>
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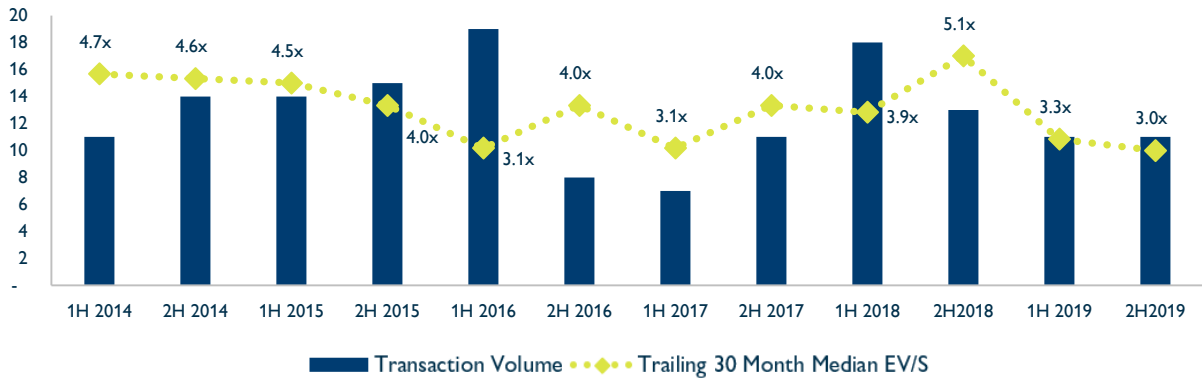


EHR & INFORMATION SERVICES

Sub-sector overview

Several successive reporting periods since 2016 were characterised by volatility and an overall declining trend in terms of transaction volume, 2H2019 brought stability as transaction volume was flat compared to the last reporting period.

EV/S multiples have seen some volatility over the years but remain resilient overall, as the trailing 30-month median remains in line with the floor we have seen in 1H2016.



Financial buyers become leading buyer group

Compared to the overall healthtech sector, EHR & Information Services has an exceptionally high proportion of private equity buyers. In 2H2019, 55 per cent of all acquisitions were completed by private equity buyers or their portfolio companies, versus 33 per cent in the healthtech space overall.

One example is the secondary buyout of Audax Private Equity’s portfolio company Corepoint Health by HgCapital’s portfolio company Rhapsody. Both companies provide healthcare interoperability solutions that connect healthcare ecosystems and facilitate data integration and exchange. The transaction could be a move to gain scale and strengthen Rhapsody’s market position ahead of an exit by HgCapital, which invested in Rhapsody 2018.

This push of financial buyers into the EHR and Information Management space should be expected given that it is the most mature of all healthtech segments.

AI also drives information management deals

In order to serve its clients in science, technology and medicine more effectively, Elsevier acquired Parity Computing Inc., which provides AI-enabled data discovery and categorisation SaaS for the life sciences and medicine sectors. Parity’s disambiguation technology helps users of Elsevier’s databases such as researchers, universities, governments and funding agencies to find insights and emerging trends that increase the visibility of research and bolster funding applications.



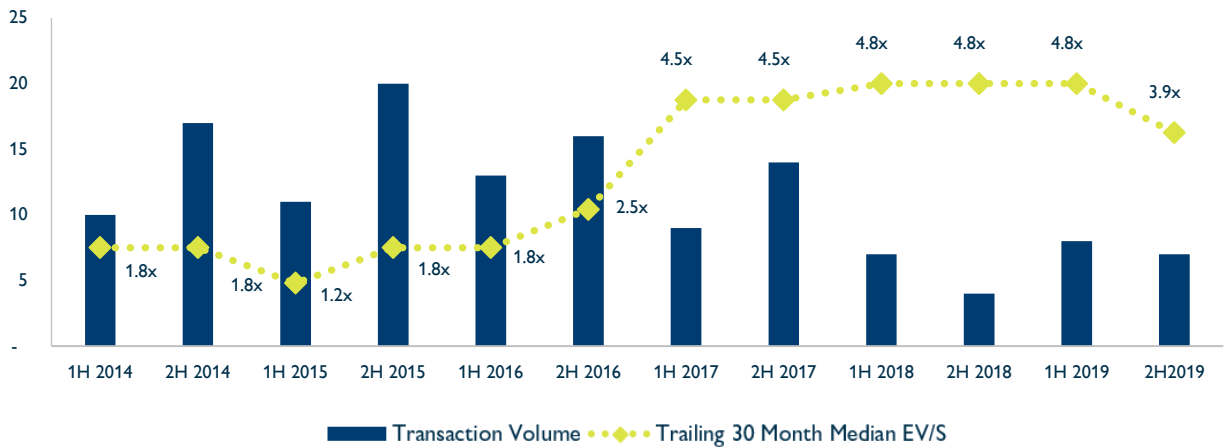


ONLINE HEALTH SERVICES

Sub-sector overview

Transaction volume in 2H2019 increased by 75 per cent compared to the same period last year. Overall, the total transaction volume for 2019 was 36 per cent higher than that of 2018. This rebound follows a period of gradual decline in transaction volumes that started in 2015.

In addition to this rebound, the subsector also delivered the largest healthcare deal of 2H2019, which was IAC's acquisition of Care.com for \$500 million at 2.0x EV/S.



Fourth and fifth add-on acquisition to WebMD

WebMD has been highly acquisitive since being acquired by Internet Brands (controlled by KKR) for \$2.8 billion in the second largest transaction of 2017 and fifth largest transaction overall since 2017.

The company, which provides online health information services for consumers, physicians, and other healthcare professionals, has been expanding its services offering. Most recently, it acquired Aptus Health from Merck. Aptus provides a clinical news website, and patient engagement and analytics SaaS for the healthcare, pharmaceutical and life sciences sectors globally.

Just before the Aptus acquisition, WebMD acquired QxMD Software, which provides mobile decision point tools and personalised learning solutions for physicians and health care professionals.

Both targets will operate independently within the network and complement the existing brands in WebMD's portfolio, particularly Medscape, which provides clinical news, health information, education and point-of-care tools for health care professionals.

Overall, WebMD's build out as part of Internet Brands illustrates its intent to build a platform that can enable a fundamental change in the way primary healthcare is delivered.

IAC

20 Dec
ACQUIRED
\$500 million

Care.com

WebMD
ib Internet Brands KKR

30 Sep
ACQUIRED
Not disclosed

univadis

WebMD
ib Internet Brands KKR

12 Aug
ACQUIRED
Not disclosed

QxMD



CONCLUSION & CONTACTS

In the second half of 2019, the Healthtech sector saw the highest number of deals since 2016 and witnessed peak revenue and EBITDA valuation multiples. Though the yearlong private equity healthcare buying spree has slowed down, acquirers both strategic and financial are forking out big sums for these revolutionary healthtech solutions.

Given the pressure on health systems worldwide – ever-rising costs, aging populations, lifestyle diseases and rising patient expectations, not to mention the threat from epidemics as seen with the recent spread of coronavirus – healthcare providers are having to turn to new technologies if they have any hope of maintaining and enhancing future healthcare services.

This, in turn, is driving a very active healthcare M&A market as companies compete for acquisitions in AI as a strategy to support innovation and seek to dominate technology sectors such as medical data analysis. We expect this trend to continue in the next reporting periods and look forward to many more advances in the sector.



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- ✦ Artificial Intelligence
- ✦ Automotive Technology
- ✦ Cybersecurity
- ✦ Digital Commerce
- ✦ Enterprise Software
- ✦ Fintech
- ✦ Healthtech
- ✦ HR Tech
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