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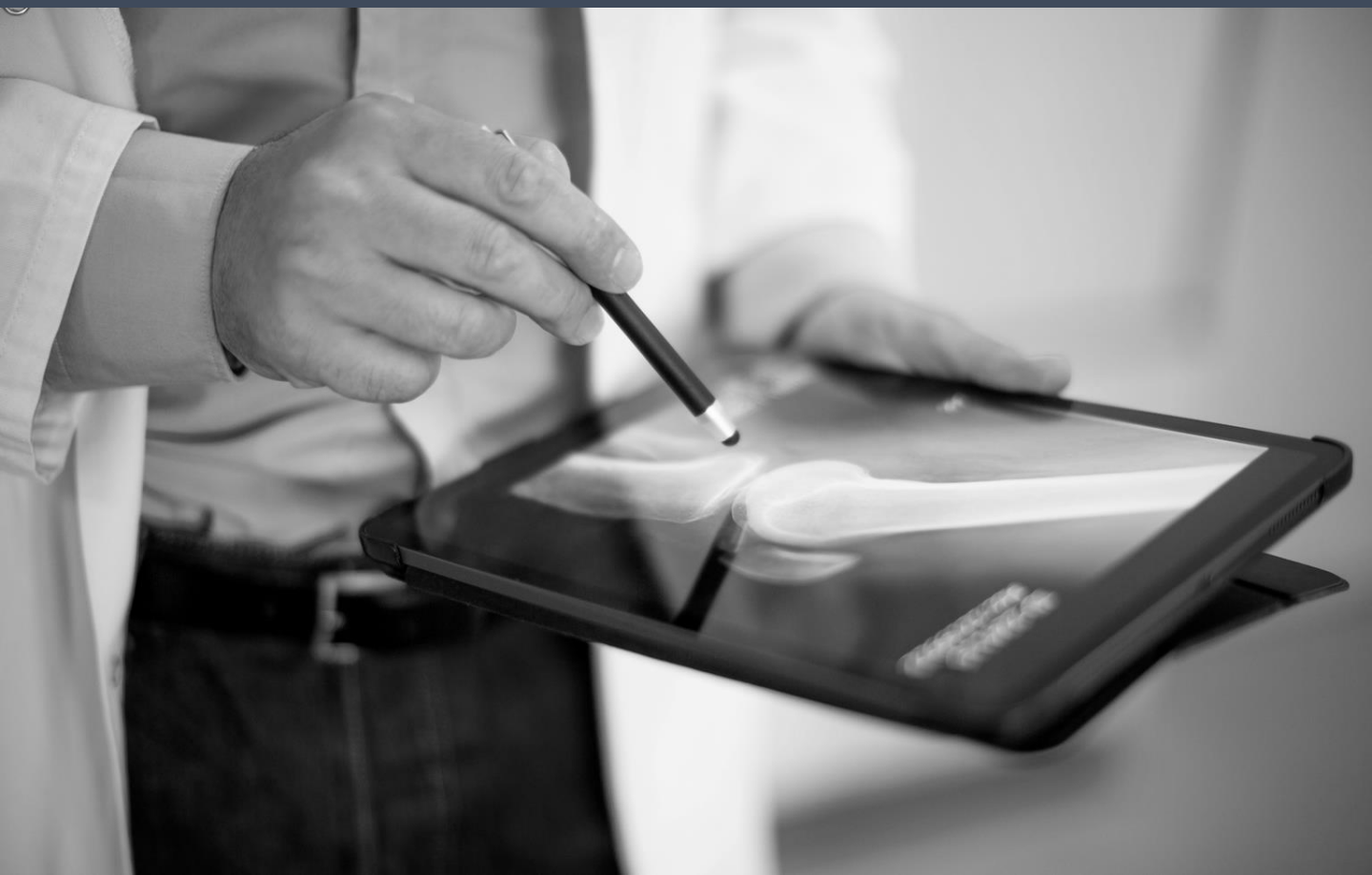
CORPORATE FINANCE

Software & IT Services

Market in Focus – Healthcare Software



M&A Market Overview

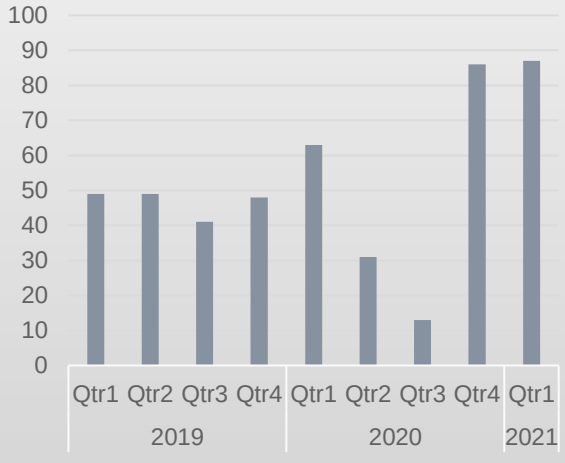
Healthcare software companies are capitalising on accelerated market growth and the latest wave of sector consolidation to bolster long term growth plans and maximise shareholder exit value strategies

- Software M&A activity has rebounded to its highest level since Q120. The sector has witnessed accelerated consolidation activity and heightened interest from private equity investors who have realigned their investment strategies and attention towards pandemic resilient business models in order to navigate Covid-19.
- As software stocks outpaced many other sectors of the economy during the rebound, both M&A activity and investor confidence have been amplified to new highs, overcoming the disruption and delays to transaction processes caused by the pandemic between Q2-Q320.
- Covid-19 has accelerated the transition towards the digitisation of healthcare services and the need for software-enabled solutions such apps, telemedicine and web-based resources - driving record M&A volumes and enhancing exit valuations of pioneering healthcare software providers.
- Healthcare software companies have reacted swiftly to the pandemic by altering inorganic growth plans, devising M&A strategies focused on augmentation of technologies, ease of scalability and expansion of market share. In turn, shareholders have benefitted from heightened valuations, with well capitalised acquirers willing to pay substantial premiums in order to maintain competitive advantage and access new technologies.
- The healthcare software sector will remain an attractive industry for investors long after the pandemic subsides, underpinned by its extensive pipeline of innovation and technological disruption, and the strong demographic and demand foundation of the wider healthcare sector.
- Deal volumes are anticipated to remain buoyant as strategic acquirers devise and execute successive buy-and-build strategies, whilst private equity and venture capital funds deploy record levels of capital in parallel.
- Despite the health crisis caused by Covid-19, we expect the healthcare software industry's rebound to be stronger and more sustained than most other sectors, remaining a highly attractive investment case for well prepared acquirers and providers of capital.
- The opportunity for healthcare software providers to facilitate increasingly effective health and social services and excel via innovation, digitisation and capital investment has been recognised, with strategic acquirers adopting consolidation strategies to support their growth ambitions.
- Healthcare software companies with a dominant presence in niche markets are attracting substantial interest from investors. These smaller untapped verticals often have fewer software solutions, offering multiple expansion opportunities for private equity. The disproportionate sector attention from investors looking to deploy record levels of capital will spur an active M&A environment and provide an opportunity for those looking to exit at historically high valuations.

Selected transactions

Date	Target	Acquirer/ Investor
Jun 2021	Medixine	Springvest
May 2021	Q doctor	eConsult Health
Apr 2021	Doctify	Keen Venture Partners
Apr 2021	Qare	HealthHero
Apr 2021	ExtraMed	Alcidion
Feb 2021	Vamstar	BTOV, Antler, Begin
Feb 2021	System C / Graphet Health	CVC

UK Software M&A Volumes



Source: Refinitiv, Gambit analysis

Market Dynamics

Patient engagement

- The relationship between patients and medical professionals has evolved considerably over the last 18 months. Communication has become increasingly remote and digitised, supported by the development and utilisation of software applications such as NHS Track and Trace with virtual consultations also becoming more commonplace.
- Heightened patient numbers resulting from the pandemic have caused severe constrain on intensive care unit beds, nurses, and care sites. With the added concerns around the safety of acute facilities and the ability to obtain care, healthcare delivery models have become increasingly remote and digitised, utilising software platforms to improve patient engagement and effectively manage and monitor resource allocation.
- Healthcare software platforms continue to attract substantial interest from both pioneering corporates and private equity funds seeking to capitalise on this market transformation.

May 2021: eConsult Health, a leading digital triage provider acquires video consultation & SMS platform Q doctor

Diagnostics

- Accurate detection of illness and timely interventions such as self-isolation have emerged as a pressing need in the wake of the pandemic, with speed and accuracy of foremost importance to patients, medical professionals and the general public.
- Remote diagnostic software applications have proved to be a valuable and efficient solution to mass screening, preventing and monitoring diseases, and enabling targeted treatment to individuals in a cost-efficient manner.
- Underpinned by intelligent software applications, alternative diagnostic methods will continue to play a pivotal role in disease and injury management beyond Covid-19, as familiarity among patients increases and the added benefits to healthcare providers' budgets are realised.
- Remote diagnostics software technologies present an attractive opportunity for investors, who continue to seek covid-resilient verticals and deploy record levels of capital investment to innovative and disruptive healthcare software providers.

June 2021: Remote diagnostics provider LetsGetChecked secures $150m Series D funding led by Casdin Capital

Clinical procedures and treatment

- Across the healthcare spectrum, software is becoming increasingly utilised to develop modern methods of care delivery and clinical trials. Areas for innovation include primary care, triage, resource management and home care models.
- Covid-19 exposed some weaknesses of the traditional clinical trial approach. Clinical trial efficiency solutions such as e-consent, decentralisation of trials and use of real-world data all represent avenues of development towards a trial model less reliant on physical interactions and more reliant on software & IT.
- Software companies supporting the modernisation of healthcare activities across the value chain, from clinical trials virtualisation to telehealth, will attract heightened valuations compared to traditional healthcare services providers and spur an active M&A environment across the sector.

February 2020: Citadel Group acquires connected healthcare specialist Wellbeing Software

Monitoring and self-care

- The delivery of patient monitoring services has adapted to promote social distancing and increase the availability of resources for Covid-19 care. Monitoring has become remote, with advancements in wearable technologies such as heart rate sensors, exercise trackers and their underlying software providing real-time information to patients to facilitate self-care.
- Beyond the pandemic, software platforms that facilitate self-care will continue to provide multiple benefits, especially to those living with longer-term chronic conditions. These solutions have the potential to significantly improve health budgets, reduce the strain on resources in clinical settings and improve the experience of patients by removing wait times and providing the comfort of being at home.
- Improvements in patient experience and overhead management are at the forefront of healthcare providers' agendas, providing significant growth opportunities and value enhancement for pioneering software companies that help achieve this.

April 2021: Remote care management platform Current Health secures £31m Series B funding from Northpond Ventures

Valuation Drivers

Covid-19 responsiveness

- Encouraged by the sector's responsiveness to the pandemic, acquirers are executing targeted M&A strategies and considering how best to align portfolios to meet the demands of the post-covid landscape.
- The software industry has experienced a rallying of share prices and public valuations in the last 12 months, with private companies in well performing subsectors such as healthcare benefiting from enhanced exit multiples.
- Substantial demand for disruptive healthcare software solutions in reaction to the pandemic, combined with heightened M&A activity and investor confidence has enabled healthcare software providers to benefit from strong investor appetite and an associated uplift in company valuations.

Recurring revenues

- Investor confidence is underpinned by visibility of recurring revenues - verifying the sustainability of Software as a Service business models and further demonstrating resilience to the pandemic.
- Coupled with high margins and asset light business models, software companies present an attractive investment case for both strategic and financial acquirers seeking to identify secure investments in the face of economic instability.
- Healthcare software companies demonstrating higher levels of recurring and re-occurring revenues have achieved greater valuation multiples than business models reliant on one-off and project related sales.

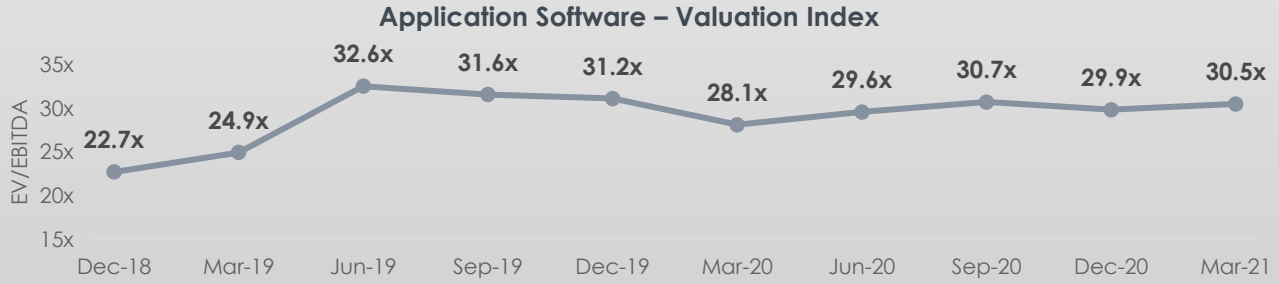
Scalability

- Software as a Service business models have become an industry favourite of recent, underpinned by ease of scalability and visibility of recurring revenues.
- Accelerated buy-and-build strategies have been executed by well-prepared and aspiring corporates such as London based start-up HealthHero. The company has completed a series of domestic and international acquisitions since its inception in 2019, achieving ten times revenue growth during 2020 and is now one of the largest telehealth companies in Europe.
- Skilled and experienced management teams are central to succession planning strategies and are highly valued by financial and bolt-on acquirers pursuing high-performing targets capable of operating successfully and contributing to a larger organisation.

Differentiation

- Acquirers have sought to diversify their existing portfolios and expand the scope of their acquisition criteria rather than purely scaling existing software capabilities, in order to enhance capabilities and access new verticals.
- Strategic acquirers are seeking to address gaps in IP and protect market share via acquisitions of sector specialists and unique software providers. The adoption of modern technologies to support the evolution of the healthcare market has led investors and acquirers to seek disruptive software companies primed for growth. Investors are willing to pay a premium in order to obtain such technologies.
- The propensity of healthcare institutions to adopt earlier stage software technologies in the pursuit of speed and agility has led acquirers to consider smaller-scale transactions to supplement buy-and-build strategies and leverage the fast-growing nature of more agile companies.

Gambit's application software valuation index witnessed an appreciation in EV/EBITDA multiples to near record valuations in Q121, buoyed by the industry's responsiveness to Covid-19 and market confidence from investors



Key points in focus:

- **The need for robust software solutions across the healthcare spectrum and the focus from healthcare providers on enhancing their technological capabilities in response to Covid-19 bodes well for market growth and raises expectations for a larger, longer-lasting wave of healthcare software consolidation.**
- **Innovation in technologies and healthcare delivery models will continue to support positive market growth and trading performance of healthcare software companies. We expect to see a mixture of continued pricing growth, increased demand, and the creation of new market niches for healthcare software providers to explore.**
- **While primary in-person aspects of healthcare delivery models remain relevant, acquirers will continue to evaluate which software-enabled assets demonstrate significant growth potential in this rapidly evolving industry. Investors are seeking pioneering software companies that can excel by addressing niche end-use cases and are deploying substantial levels of development capital to support these companies in reaching the next stage of their growth plans.**
- **Acquirers have widened the scope of their acquisition searches to identify smaller, more agile software companies to help facilitate the transition towards digitisation and interconnectivity amongst healthcare providers. Opportunity exits for these companies to accelerate succession planning and shareholder exit processes to crystalise capital gains during a period of heightened M&A activity and corporate valuations.**
- **This latest wave of consolidation reflects the recognition that quality assets within pandemic-resilient sectors such as healthcare software are highly sought after, requiring investors to execute timely M&A strategies in order to maintain competitive advantage and enhance their suite of software products.**
- **The disproportionate attention on the healthcare technology market from investors looking to deploy record levels of capital will spur an active M&A environment and provide an opportunity for those looking to exit at historically strong valuations.**
- **Dealmaking has changed during the pandemic, but M&A participants have remained persistent and flexible, adapting to remote due diligence and negotiations and completing transactions despite this unique situation.**
- **If you would like to arrange a call to discuss the opportunities facing your business or to understand the most appropriate solutions to support your shareholders' needs and ambitions, please contact a member of the team.**

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Gambit Corporate Finance LLP

Gambit Corporate Finance acted as lead advisor to the shareholder of

Learna

on its management buy-out with funding from

HARWOOD CAPITAL MANAGEMENT

Gambit Corporate Finance acted as lead advisor to the management of

Ultrawave Minerva

on its management buy-out with funding from

Banc

Gambit Corporate Finance acted as lead advisor to

chromogenex™

on its fundraising from

Squadron Capital

Gambit Corporate Finance acted as lead advisor to

BioMonde®

on its fundraising from

Banc

OXFORD CAPITAL

Gambit Corporate Finance acted as lead advisor to the shareholders of

Glamorgan Telecom

Voice & Data Specialists

on its sale to

onecom

Gambit Corporate Finance acted as lead advisor to the shareholders of

Pinnacle

document solutions group

on its sale to

ethos

Gambit Corporate Finance acted as lead advisor to

Inspiretec

on its refinancing from

NatWest

Gambit Corporate Finance acted as lead advisor to the shareholders of

certus

on its sale to

SysGroup

Gambit Corporate Finance acted as lead advisor to the shareholders of

Pinnacle

telecom solutions

on its sale to

SOUTHERN COMMUNICATIONS

Gambit Corporate Finance acted as lead advisor to

Do-IT>

on its fundraising from private investors

Gambit Corporate Finance acted as lead advisor to the management of

COMPUTER WORLD

Helping Businesses Define Tomorrow

on its management buy-out

Gambit Corporate Finance acted as lead advisor to the shareholders of

TIS Software Ltd

on its sale to

Kerridge

Commercial Systems

Gambit Corporate Finance

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