European HealthTech: A growing and resilient European Tech sector

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Finch Capital's 'State of European HealthTech Report 2022' finds that on the back of the rise and fall of telemedicine funding, a new breed of entrepreneurs with experience in HealthTech are creating new companies. While the number of companies founded fell in 2021, ignoring the frenzy in 2021, capital invested in HealthTech companies steadily increased. The future of funding bodes well for the sector as it is less reliant on mega rounds. Talent acquisition has also slowed across the board, particularly in sectors that grew disproportionately in 2021. That said, what is becoming abundantly clear is the importance of technology in the health M&A environment.

London/Amsterdam, 1 December 2022; Finch Capital's inaugural *State of European HealthTech* report dives into how the industry has been transformed 2 years after the pandemic. In the report, the European Growth Capital firm forecasts how the next generation of HealthTech entrepreneurs will give rise to technology businesses in HealthTech.

While the sector is still young, it has seen significant growth in recent years, with total capital invested having grown from c.$1.7 billion in 2017 to close to $10 billion in 2021 driven by the Covid peak. In 2022, it is expected to reach c.$5 billion in capital invested, which is still significant growth compared to 2020 levels. M&A in Health was very focused on traditional healthcare providers but now we see a growth in health technology companiesm accounting for c.20% of total health M&A today vs. 5% in 2019.

In Finch Capital's inaugural report, four key trends in the HealthTech vertical were assessed as a proxy for the prosperity of the sector: the number of entrepreneurs in the ecosystem, the funding volume, the number of hires in the industry verticals, and the function exits play in the development of the HealthTech sector.

European HealthTech remains a resilient growing sector, with a healthy M&A exit market

Finch Capital's research reveals that HealthTech investments in the region have slowed down as a result of the economic scenario. The report shows that new business formation in the HealthTech sector peaked in 2018 and declined by 48% during 2021.

In 2022, the top 10 funding rounds in Europe accounted for 28% of the overall deal volume. So far in 2022, the European HealthTech sector has raised only ~50% of the capital raised in 2021. Global Corporate VCs have reduced their commitments to the sector, albeit, at a lower rate than some other sectors such as Fintech.

Since H1 2021, valuations of leading Public HealthTech companies have come down back to 2019 levels after a strong rally since 2020. Accordingly, M&A/IPO transactions in 2022 are also seeing a downward trend in valuations compared to the highs of 2021.

The value-add of Healthtech solutions alongside traditional healthcare has become more evident over the years, with M&A in the space now accounting for 19% of the total Health M&A volume. This growth is mainly driven by mega-deals such as Cerner and Athenehealth. The European share of HealthTech remains stable at around 21%.

A new dawn for healthcare unlocked by the growing adoption of tech by the healthcare providers and ecosystem

Amongst the various subsegments, telemedicine and diagnostic companies that over-hired in 2021 for a greater consumer push were most affected by layoffs reducing staff in both sales and engineering departments. However, B2B focused companies within segments including hospital/ clinic management and Insurtech continue their hiring trend as they further build out their product and sales capabilities.

Commenting on the findings **Aman Ghei, Partner at Finch Capital, said:** "Telemedicine was the knight in shining armor over the pandemic, with the need for remote consultations peaking last year. As we grew out of the pandemic coupled with macro issues, it became clear that these remote consulting companies did not have a clear business model so we have seen a retreat in funding from the vertical. The health innovation boost benefited other verticals in HealthTech as providers and investors have seen the impact innovation can have in this sector resulting in continuous excitement and innovation in the

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broader health market".

Health technology becoming more important in healthcare conversations

"Technology has become more relevant for traditional healthcare investors as M&A in HeathTech reaches 20% of the total healthcare market. We are likely to see increased investment in primary and secondary care software infrastructure as well as specialized biotechnology companies".

Normalizing for the boost in COVID related funding, overall funding has actually grown quite steadily in the industry in Europe. The vertical has never relied on IPOs for liquidity and M&A appetite remains quite healthy.

Ends

Notes to the editor

Report authors Aman Ghei (aman@finchcapital.com) can be contacted directly. Key slides can be found here and media images here.

For the full report, please see here.

About Finch Capital

Finch Capital is a European Thematic Growth Investor. We currently focus on 3 themes: Health, Financial and Property technology. We back companies generating €2m+ in ARR by investing €5 to €10m initially and help them scale to €30m-€50m revenues by building sustainable and capital efficient business models. We've invested in ±45 companies including Lantum, Fourthline, Goodlord, Grab, Hiber, Twisto, AccountsIQ, ZOPA and Symmetrical.

Finch Capital consists of a team of 12 investment professionals with wide entrepreneurial experience (e.g. Funding Circle, Adyen), prior investment experience (e.g. Accel, Egeria) and industry backgrounds (e.g., Facebook, McKinsey), located across offices in Amsterdam and London. For more information see www.finchcapital.com and subscribe to our newsletter.

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