OCT 2021

www.meliorcm.com

NEWSLETTER

MELIOR INSIGHTS

INSIDE THIS ISSUE:

INTRODUCTION

THE GROWING ROLE OF MEDTECH IN GLOBAL HEALTH

MEDTECH TRENDS

MEDTECH PRIVATE INVESTMENTS

MEDTECH M&A

MEDTECH IPOS

This newsletter is for education purposes only and addresses past events. This newsletter is not an offer nor an invitation to subscribe.

Melior
CAPITAL MANAGEMENT

Introduction to Melior Capital Management

MELIOR

/me'ljor/
(from Latin)

BETTER, SOUNDER, SUPERIOR

Melior Capital Management is a Swiss domiciled company investor and advisory firm focused exclusively on the global life science sector.

We specialise in providing both funding and valuable expertise to MedTech, Biotech and Pharmaceutical companies by applying institutional quality service and process all the way to commercialisation stage.

Our investment approach is to fund innovative and unique projects, with proven management teams, promising data, robust IP, strong corporate governance and a likely opportunity for significant commercial upside in a three to five-year horizon.

In the current environment, many existing companies seeking capital for medical trials have encountered a diminishing supply of funding from governments, private equity firms, investment banks and research foundations in favour of start-ups. At Melior, we combine the global reputation of our scientific, management and advisory members to select best in class investment opportunities with credible upside potential.

Our value proposition is attributable to our world class team and their proven track record in the life-science sector, plus the strong emphasis that we place upon due diligence and first-hand experience. Our goal is to offer attractive and diverse investments to both high net worth private clients and larger corporates through their professional advisers. For our business to be truly successful, we consider the needs of all parties, including our investees, investors and professional advisers at introduction and throughout the life of the investment. Our financial success depends on funds raised and the financial return of our investees as we share a common goal.

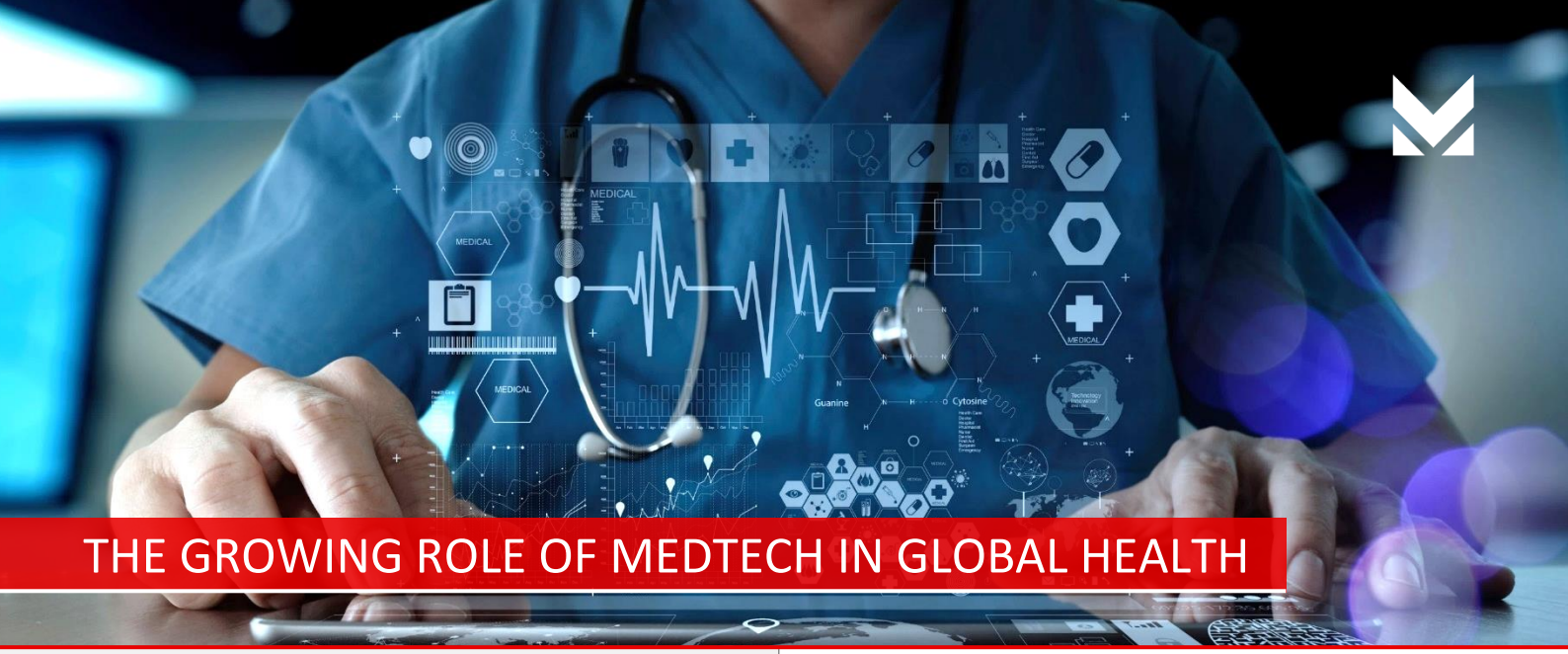
Life science was always a key sector of the global economy, but its importance grew even more with the growing proportion of aging population, higher costs for healthcare and more recently, the emergence of COVID. One sub-sector of life science has seen a particularly interesting evolution in the last few quarters – medical device technologies (Medtech). At first, it received a strong hit, particularly the segment that depended on elective surgeries (implants and surgery related devices), with patients putting off such interventions. However, the dynamic has quickly reversed for the sector and this will be extensively reviewed in this report.

Understanding the role of Medtech in global health, its future evolution and trends are all key ingredients for good investment decisions that can bring much value creation in the Medtech sector, as well as healthy financial returns.

Melior does not accept enquiries from members of the general public, but we welcome enquiries from professional intermediaries.

Melior Capital Management

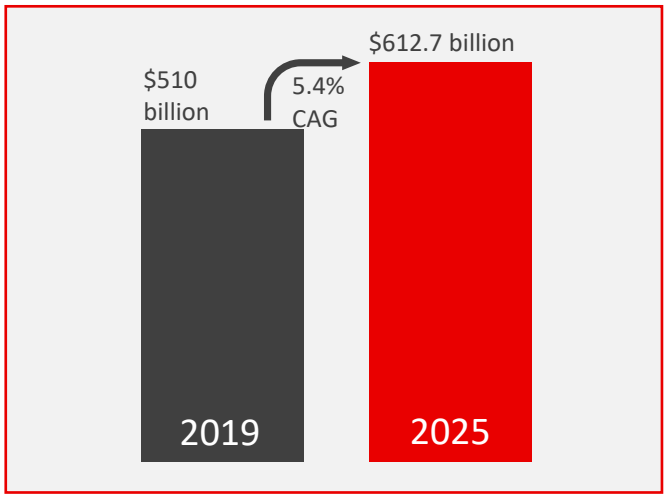
MELIOR CAPITAL MANAGEMENT



THE GROWING ROLE OF MEDTECH IN GLOBAL HEALTH

Medtech is known to be a sector smaller in size than pharma and biotech. A report from Deloitte estimates that by 2040, two-thirds of healthcare spending will be driven by well-being, early detection, prevention and cure of disease.

Detection and prevention will likely rely on sensors, fit for purpose, robotics, and artificial intelligence in a regulated setting, which would boost the Medtech sub-sector. In addition, the fact that medical devices, generally, have a quicker research and development process, as well as having a clearer path to market, thus making this sub-sector more attractive to investors. These factors and the growing needs generated by various health conditions are stimulating the expansion of this sector.



The evolution of medtech market

Prior to the pandemic, in 2019, the annual revenue of the global Medtech industry was estimated at $510 billion. The figure for 2025 is expected to reach $612.7 billion, with a growth of 5.4% CAGR. The value of the European Medtech market alone is estimated at $162 billion, with countries like Germany, France and the UK leading in research, development and usage of medical devices. Medtech is also an industry employing hundreds of thousand people around the globe, with more than 106,000 working in this sector in the US and 760,000 across 33,000 companies in Europe. Furthermore, Medtech is one of the most productive sectors in intellectual property development. The European Patent Office reported that there were 14,295 patent applications filed in the Medtech field in 2020, a rise of 2.6% from 2019 and the highest of all the sectors. As a matter of fact, this was the 9th year in the past decade in which Medtech obtained the top spot in Europe, with 2019 being the only year when the top position was occupied by digital communication. Pharmaceutical and biotechnology patent applications accounted for 8,589 and 7,246 of applications respectively, taking the 6th and 8th places. Combining the 3 fields, life sciences covered 16.7% of all 2020 patent applications at the EPO showing how vital this sector is.

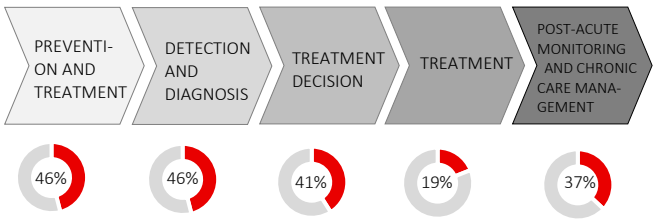
The aging global population is another important factor driving the expansion of the Medtech sub-sector. Forecasts estimate that by 2050, 1 in 6 people will be of retirement age. In the UK alone, there will be an extra 8.6 million people aged 65+, this is roughly the current population of London. With this dynamic, more people will require healthcare, but at the same time, the pool of health workers is very likely to decrease. In addition, there will also be fewer people contributing to national health and social funds. Thus, extreme pressure will be placed on governments and healthcare systems. This trend was already clear to see before the COVID-19 pandemic, but

now it makes the need for structural changes even clearer. In order to optimise these future costs, governments and investors boosted their interest in life science projects that facilitate the early detection of disease, offer personalised care and targeted treatments, decrease costs, while also significantly improving the quality of life for patients. In many of these areas, Medtech projects are more relevant and efficient than pharma and biotech products, their attractiveness also being enhanced by a clearer road from lab to regulator and a quicker deployment to market.

MEDTECH TRENDS

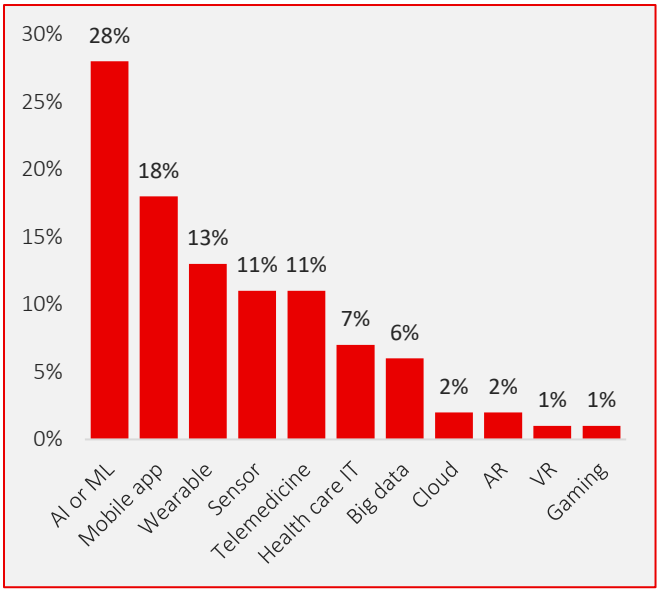
When looking at trends within Medtech, a number of interesting trends have emerged. A recent report from Deloitte and the Medtech Innovator (MTI), based on the analysis of more than 1,000 Medtech start-ups outlined:

1. Medtech companies are shifting from episodic care and procedures to a more comprehensive approach where they seek to participate in more than one stage of patient care. The first two stages are the most popular among Medtech start-ups with 46% participating in each. The treatment stage has lower coverage in the Medtech sector as it often requires the usage of pharma and biotech products.



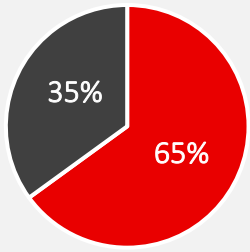
2. The site where care is received is quickly moving away from traditional in-patient to more flexible outpatient and remote settings. This is driven by a pressure to reduce costs, increase efficiency and of concerns for hospital-related risks, including COVID. Ambulatory clinics, self-administered diagnostics, remote monitoring and at-home care, are becoming more viable. These can significantly increase patient access, simplify monitoring, and extend therapeutic options.

3. More sophisticated digital technologies are integrated into medical devices to harness the power of centralized data, artificial intelligence, and direct monitoring from smartphones or sensors. Of the start-ups analysed, 70% reported the use of at least one digital capability, the leading one being artificial intelligence which includes data retention, to allow machine learning.



4. Less burdensome regulatory paths are being chosen by start-ups in order to decrease the time taken to reach the market. With an increasing pool of predicate devices, nearly half (47%) are planning to take the 510(k) pathway, while 29% said that no approval is needed at all for their device, most of these being oriented towards preventive medicine and wellness, including digital apps. Only about a fifth of founders mentioned that they are planning de novo (13%) or premarket approval (PMA, 8%) routes; these latter pathways are more demanding since they require more clinical evidence, which would require significantly more funding and longer regulatory review in return for longer patent coverage and increased reimbursement opportunities, thus favourably impacting valuation and the return to investors.

5. Medtech start-ups increasingly focus on multiple revenue business models. SaaS/subscription-based models (49%), single-use/disposables (48%), licensing (37%), and equipment/capital sales (35%) are the most popular options. Interestingly, Medtech start-ups are already implementing click fee, disposables, and patient encounter models, which already have proven lucrative in the 'classical' tech sector.



Single-use/disposable	17%
SaaS/subscription-based	12%
Equipment/capital sales	4%
Licensing	1%
Transaction fees/royalties	1%
Single-use/disposable + equipment/capital sales	7%
SaaS/subscription-based + licensing	4%
Single-use/disposable + licensing	3%
Equipment/capital sales + SaaS/subscription-based	3%
Single-use/disposable + licensing + transaction fees/royalties	3%
Single-use/disposable + equipment/capital sales + licensing	2%
SaaS/subscription-based + freemium-to-premium	2%
SaaS/subscription-based + data + licensing	2%
Single-use/disposable + SaaS/subscription-based	2%
Others	37%

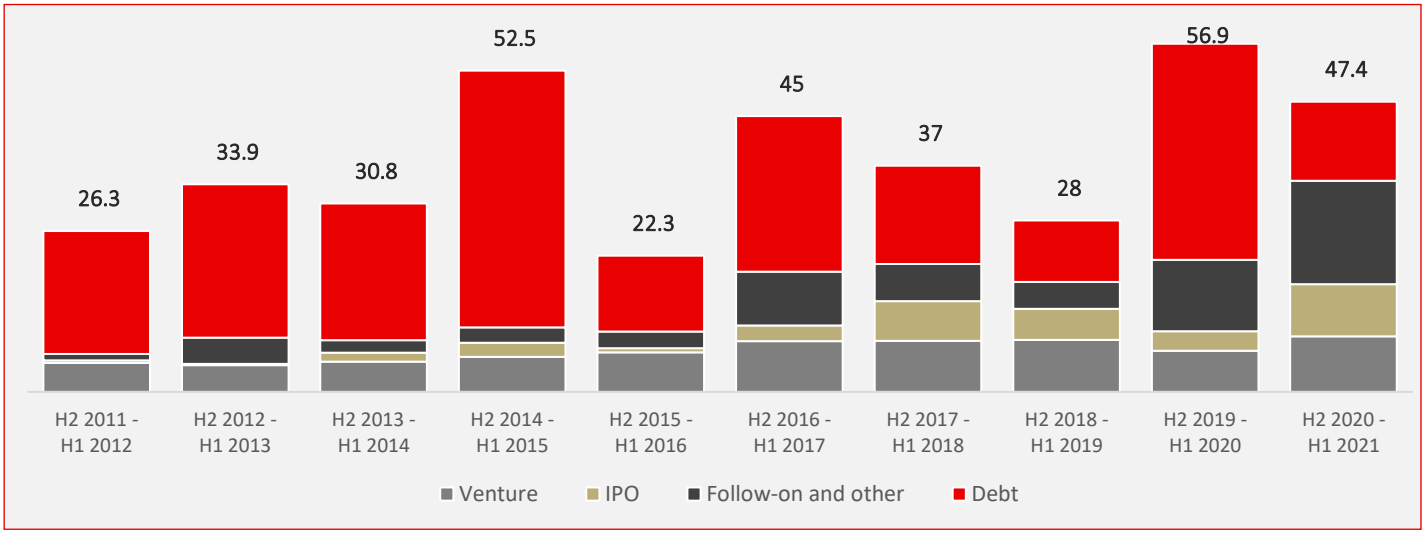
From the fundraising perspective in the USA and Europe, previous funding trends continue with special purpose vehicles (SPVs) emerging. When looking at the type of capital raised, pre-IPO investments have been growing steadily over the last ten years in these two key regions.

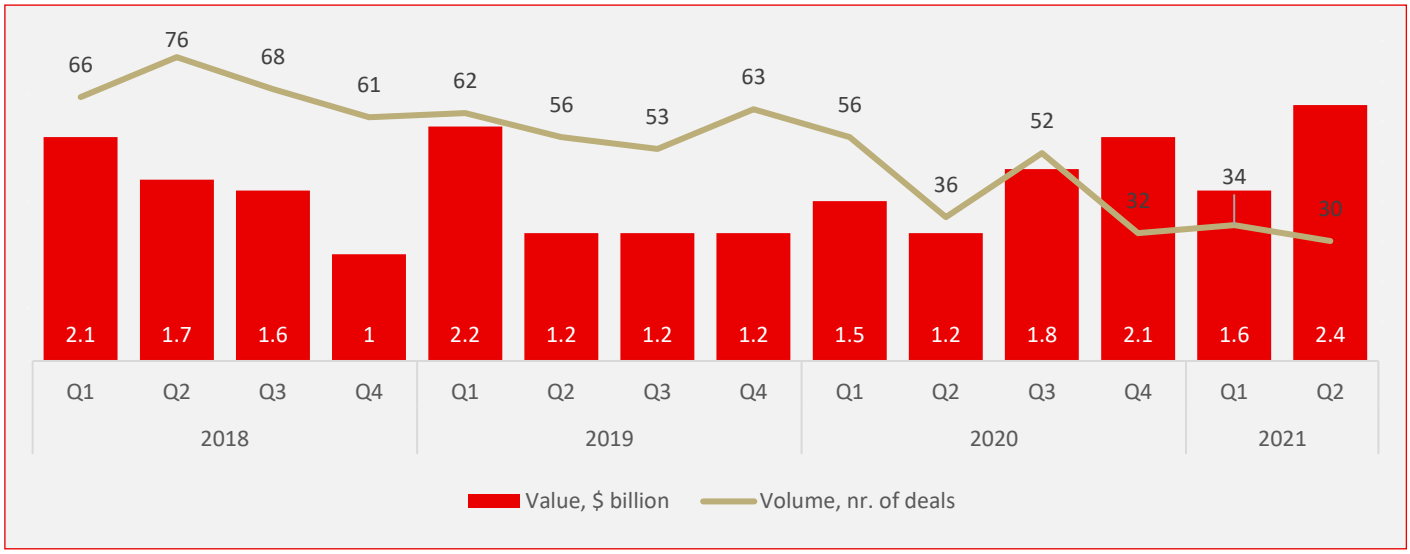
The same holds for IPOs; there was an all-time record high of IPOs and Follow-on, which includes private investments in public equity (PIPEs), reaching $8.6 billion and $16.9 billion respectively in the period of H2 2020 – H1 2021. Debt, on the other hand, was at one of the lowest levels, at $12.9 billion. When looking at the overall figure of $47.4 billion and taking into consideration the wider context of the pandemic, the quantity of capital investments is very encouraging and it's clear that there is an evident commitment by investors in developing the Medtech sector.

MEDTECH PRIVATE INVESTMENTS

Private investments in Medtech have been through a positive evolution over the last few quarters, with Q2 2021 seeing the largest growth since Q1 2017. Though this sub-sector faced much uncertainty with many medical tests and procedures postponed, investors remained confident. A forward-thinking example is the successful $600 million series D investment last June into the UK-based robotic surgery commercial stage company, CMR Surgical.

Investment expanded with $4 billion invested privately in Medtech in the first half of 2021, with 64 venture deals, pushing the average round size to a record high of $62.5 million, which surpassed the biotech average deal size of $50 million in Q2 2021. Traditionally, biotech and pharma receive larger investments as drugs tend to be costlier to develop, however, the growing average amount per deal in Medtech suggests that investors are eager to boost the development of start-ups in this sector and have confidence in their future.





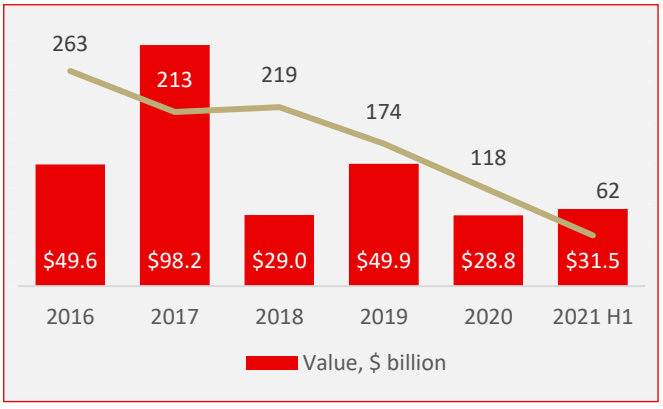
Early Medtech VC investments, e.g. Seed and Series A rounds, were at 11% - a proportion which is the highest seen since 2017, when it was 16%. Typically, most Medtech VC investments go into series C and D rounds which in 2021 H1, were at 22% and 34% respectively. This trend is driven by the need for capital at more advanced stages of development, reflecting the risk appetite of venture investors. There were no F+ rounds disclosed in the first half of 2021, compared to 2020 when there were at 12%; a few such deals may close in Q4, but what is certain is that investors become increasingly more interested in early stage Medtech VC investments as they are encouraged by the 'new normality' of COVID times and are bullish on the evolution of the Medtech market. Further proof of investor interest by Medtech VC is the fact that the average deal size for H1 2021 ($62.5 million) has long overshadowed even the largest deal of 2020 ($38 million).

REMARKABLE MEDTECH NICHE – liquid biopsy:

- **Delfi Diagnostics** - **$100m**, biggest series A investment of H1 2021, for cancer liquid biopsy
- **Caris Life Sciences** - **$830m** in May 2021, the 3rd largest Medtech VC round ever
- **$390m** acquisition of **Inivata** by **Neogenomics** in May 2020
- **$1.7bn** acquisition of Thrive Earlier Detection by **Exact Sciences** in October 2020
- **$8bn** acquisition of **GRAIL** by **Illumina** in September 2020

MEDTECH M&A

Medtech was a very active sub-sector in the first half of 2021 from a mergers and acquisition point of view. The previous year saw a decline both in volume and value of deals, while in H1 2021, the value of M&A deals has already surpassed the level seen in 2020, with 62 deals totalling $31.5 billion.



Many Medtech companies had a good run in 2020 reflecting increased demand for testing and health monitoring devices, even though the pandemic also led to a reduced number of M&A deals. Thus, many Medtech companies entered 2021 with significant cash reserves and an appetite for acquisitions, particularly for players that lacked diversified portfolios and were affected by issue like the downturn in elective procedures. When looking at the specific areas of Medtech acquisition, a balanced distribution can be seen unlike in many previous years.

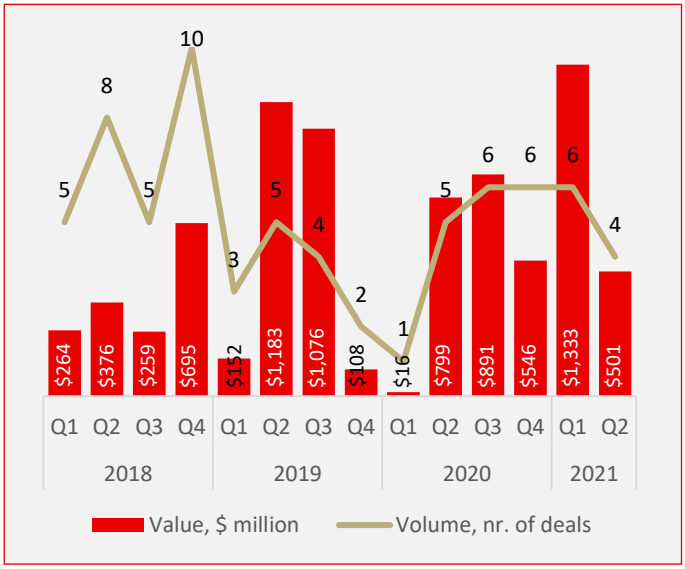
Scott Tuhy, Medtech analyst at Moody's Investor Service mentioned that "[there were] transactions in diagnostics, cardiology, dental. There were certainly times in the past where deals were often focused on one sector, but what really just stood out is that we've seen such a broad array of transactions". Some of the largest acquisitions are outlined below, showing a high degree of variation according to the area or condition targeted:

Acquirer	Target	Value	Date	Area
Baxter	Hillrom	$10.5 billion	Sept 2021	Connected care capabilities
STERIS	CANTEL	$4.6 billion	Jan 2021	Dental and dialysis
Roche	GenMark DX	$1.8 billion	Mar 2021	Pathogen testing from a single sample
DiaSorin	Luminex	$1.8 billion	Apr 2021	In vitro diagnostics for a few infectious diseases
Boston Scientific	Baylis Medical	$1.8 billion	Oct 2021	Electrophysiology and structural heart products
Philip Morris International	Vectura	$1.5 billion	Sept 2021	Inhaled drug delivery
GE Healthcare	bk medical	$1.5 billion	Sept 2021	Intraoperative imaging and surgical navigation
Boston Scientific	Lumenis	$1.1 billion	Mar 2021	Urology and otolaryngology surgery devices
Medtronic	intersect ENT	$1.1 billion	Aug 2021	A number of medical devices for chronic rhinosinusitis patients

MEDTECH IPOs

In the first six months of 2021, 10 Medtech companies have been listed on Western exchanges, with $3.3 billion raised, this marking the largest half-year for the past three years. The first IPO of this year was also the biggest - Ortho-Clinical Diagnostics raised $1.5 billion. Such mega-IPOs, which once were unheard of in the Medtech sector, have been occurring nearly every year since 2016 with the exception of 2017. Among 19 recent Medtech deals, six IPOs were diagnostics related companies indicative of an emerging trend that put this segment at the top for a few years. Medtech IPO size also fared better than biotech; the average deal size for Medtech was $174 million vs $158 million for biotech. The following chart presents a 'normalised' overview and as such IPOs above $1 billion are not included.

The weaker activity in 2020 is clearly visible (caused by the pandemic) bit is followed by an extraordinary Q1 in 2021, which included a number of deals pushed back from 2020, but also proving a 'return to normal'. The rest of 2021 is continuing strongly.



Sources: Evaluate, Silicon Valley Bank, Medtech Dive, SRG, HGF, Deloitte, EY, and the Melior Insights Team

Melior
CAPITAL MANAGEMENT

e: info@meliorcm.com
w: www.meliorcm.com

Melior Capital Management GmbH,
Baarerstrasse 12,
6300 Zug,
Switzerland

MELIOR CAPITAL MANAGEMENT:
PIONEERING LIFE SCIENCE INVESTMENT

I. Investors and their advisers must be prepared that some investments could fail. Melior is only available through professional advisers for qualified investors who genuinely understand and accept commercial risk. No investment may be entered into, neither in part nor in whole, on the basis of this newsletter. This newsletter is not an offer nor an invitation to subscribe. Melior does not provide or imply investment advice.

II. The views and opinions expressed within this document reflect those of our professional advisers, and are not necessarily those of Melior. Professional advisers should ensure that their clients seek independent and suitably qualified advice before entering into such investment.

III. Members of the Melior Scientific Team have worked on and taken to market a large number of life science projects during their careers, which spans over the past forty years. Some projects added additional revenue streams to an existing big pharma patent portfolio, some were trade-sales and some were IPOs.

© Melior Capital Management 2021