FEB 2022

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NEWSLETTER

MELIOR INSIGHTS

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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 funding truly unique Medtech, Biotech and Pharmaceutical projects by applying institutional quality service during the investment phase and all the way to commercialisation.

Our investment approach is to find qualified innovative 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.

Medtech is one of the key areas of life sciences and is often preferred by investors as on the one hand, it is much simpler to grasp the underlying concepts, especially in comparison to biotech, and on the other hand, it is easier to understand the feasibility of projects – they either work, or not! In addition, medtech typically requires less investment and has shorter timeframes to inflection points. This sector was significantly affected by the pandemic; however, it saw a tremendous return in 2021, a trend that is very likely to be maintained in 2022. The evolution of medtech VC investments and M&A is reviewed in detail in this report to offer a glimpse of where the sector is now, and where it is likely to go.

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.

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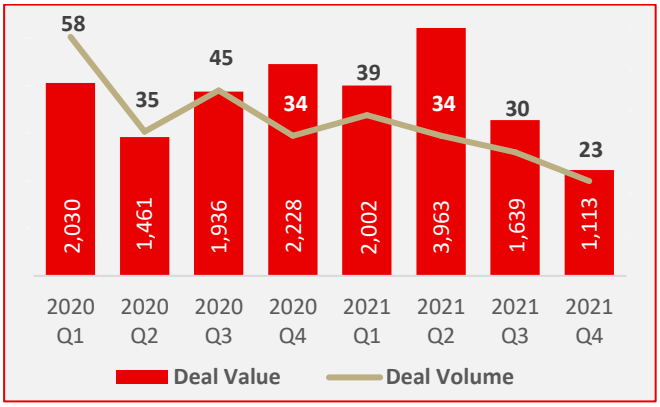
MEDTECH VENTURE CAPITAL INVESTMENTS

One of the main indicators of an investors interest in a sector is the amount of venture funding provided to the sector. This dynamic will be thoroughly reviewed in this article, contrasting the evolution of medtech venture investments in 2021 and 2020.

GENERAL OVEVIEW

Last year, was a year of remarkable success for medtech VC investments, with a total value of $8.7bn being invested. This is a 13.9% increase from the $7.6bn invested in 2020. The second quarter of 2021 had the largest value of medtech VC transactions on record at $3.96bn, surpassing the previous record of $2.9bn in Q1 2016.

When looking at deal volume, the number of transactions decreased by 26.7%, from 172 in 2020, to 126 in 2021. This resulted in a 55.4% increase in the average deal size, from $44.5m in 2020, to $69.2m in 2021. This is a strong indicator of the growing confidence of investors in the potential of the medtech sector, encouraging larger exposures for greater potential returns.



Quarterly evolution of medtech VC deal value and volume

TOP 5 MEDTECH VC DEALS OF 2021

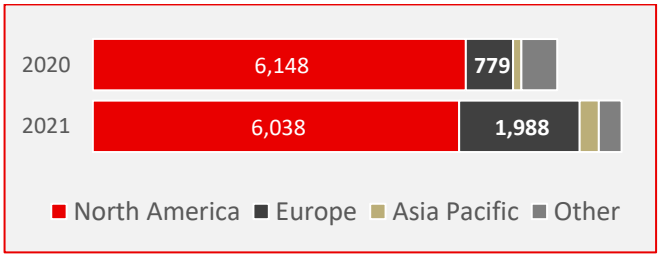
DATE	COMPANY	FOCUS	COUNTRY	ROUND	FUNDS RAISED	PROFILE
11 May 2021	CARIS LIFE SCIENCES	In Vitro Diagnostics (IVD)		Series Undisclosed	$830m	Funds to be used in advancing the development of the oncology liquid biopsy platform, which enables personalised treatment across all cancers. The last round brings the post-money valuation of the company to $7.8 billion.
28 Jun 2021	CMR SURGICAL	General & Plastic Surgery		Series D	$600m	Funds to be used in increasing the global commercialisation of Versius, a robotic system designed to aid in minimally-invasive keyhole surgery. Previously, the company founded in 2014, raised a $240 million Series C round in Sep 2019, $100 million Series B in Jun 2018 and $20 million in Series A in Jul 2016.
27 Apr 2021	kry	Healthcare IT		Series D	$300m	Funds will accelerate the European expansion of the health video consultation platform, and the development of new mental health functionalities. This round increases almost 3-times the valuation of the company to $2bn from $700m in Jan 2020.
7 Dec 2021	freenome	In Vitro Diagnostics (IVD)		Series D	$300m	Funding will support the development of a colorectal cancer screening test and expand proprietary multi-omics platform usage to other cancers, for identification at the earliest stages, from routine blood tests. This round brings the total financing of the company, founded in 2014 to $800m.
29 Jun 2021	Element Biosciences	In Vitro Diagnostics (IVD)		Series C	$276m	Proceeds will be used to develop and prepare the next-generation sequencing platform for commercialization. The company founded in 2017, has raised to date more than $400m.

TOP 5 MEDTECH VC DEALS OF 2020

DATE	COMPANY	FOCUS	COUNTRY	ROUND	FUNDS RAISED	PROFILE
17 Dec 2020	verily	Multiple areas		Series Undisclosed	$700m	Funds will be used to run a number of clinical research projects and advance products to the commercial stage. The company was founded in 2015 and is the life science arm of Alphabet (Google's holding company). It has raised $2.5bn to date.
6 May 2020	GRAIL	In Vitro Diagnostics (IVD)		Series D	$390m	Proceeds to be used to support continued development and commercialisation of multi-cancer early detection blood tests. Since its founding, the company has raised $1.9bn and was acquired by Illumina in Aug 2021 for $8bn.
26 Aug 2020	freenome	In Vitro Diagnostics (IVD)		Series C	$270m	Similar to its Series D fundraise in 2021, the company used the funds to advance its cancer blood test technology.
29 Jul 2020	Thrive. Earlier Detection	In Vitro Diagnostics (IVD)		Series B	$257m	Funds were used to advance its liquid biopsy test for cancer identification at the earliest stages. The company, founded in 2019, previously raised $110m in a Series A round and was acquired by Exact Sciences in Jan 2021 for $2.2bn.
27 Oct 2020	CARIS LIFE SCIENCES	In Vitro Diagnostics (IVD)		Series Undisclosed	$235m	Similar to its 2021 fundraise, the company used the proceeds to advance its oncology liquid biopsy platform.

GEOGRAPHIC DISTRIBUTION

From a geographical point of view, European and Asia Pacific medtech companies have seen significant increases in the value of investments as well as average deal size. European medtech companies fundraised 155.1% more in 2021 ($2bn), compared to 2020 ($0.8bn), while the average deal size grew threefold from $30m in 2020 to $90.4m in 2021. In Asia Pacific, the value increased by 134.6% from $134m to $313m, with the average deal size jumping 252% from $22.3m to $78.3m. At the same time, North America saw a slight decrease from $6.1bn in 2020, to $6bn in 2021, with the average deal size increasing from $50m to $67.1m. In other Regions, funding decreased by 36.5%, from $593m to $377m, while the average deal size increased slightly from $34.9m to $37.7m.



Geographic distribution of medtech companies (by deal value in $ million)

US medtech companies hold the record for the most funds raised being $6bn across 88 deals in 2021, a 2.2% decrease from the $6.1bn raised in 2020; The UK surpassed Israel taking the second place in 2021 at an impressive $1bn raised across 7 deals, which is a fourfold increase from $255m in 2020; Israel saw a decrease to $377m in 2021 across 10 deals, from $593m in 2020; Sweden overtook Switzerland for the fourth place in 2021, with 4 deals totalling $332m; Switzerland saw $272m raised across 4 deals; China qualified for the 6th place with 3 deals totalling $252m.

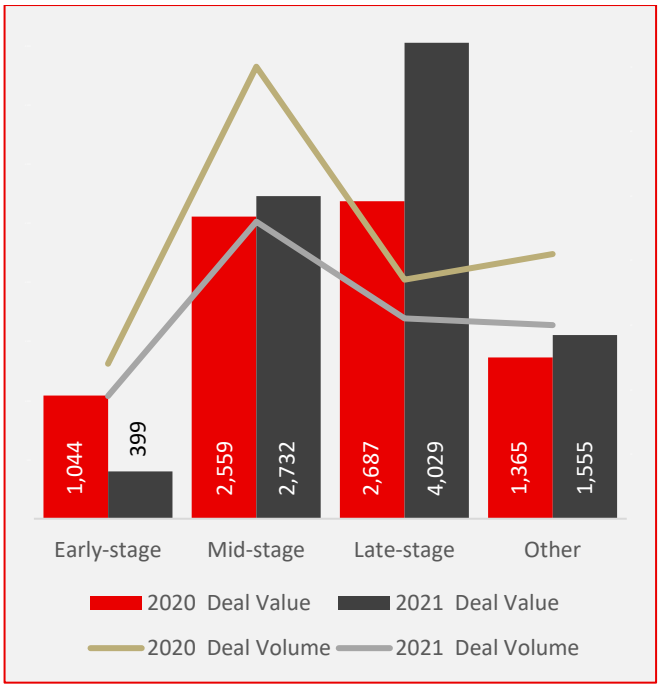
The interest of Investors in European assets is clearly visible and is expected to gain more traction in 2022. The UK in particular, which previously was a key player, returned to this status and will remain active, as the UK has implemented new programs to support start-ups and reduce the uncertainty surrounding post-Brexit times.

DEAL STAGE DISTRIBUTION

Late-stage deals (Series D+) attracted the most funds in both 2021 and 2020, with a 50% growth of volume raised from $2.7bn to $4bn. Similarly, the average deal size grew from $72.6m to $130m, suggesting that a number of medtech companies are approaching their inflection point, which might result in many M&A transactions or IPOs in

2022. Mid-stage (Series B and Series C) saw little change, with a slight relative increase from $2.6bn to $2.7bn, while the average deal size jumped 62.5% from $36.6m to $51.8m. Other stages of investment experienced a relatively small growth from $1.4bn to $1.6bn.

Early-stage (Pre-seed, Seed, and Series A) investments saw a significant drop in 2021, from $1bn in 2020 to $0.4bn. This was likely caused by the shift of investor funds to later stage assets and suggests that in 2022, with potential exits from mature companies, the interest in and competition for early-stage investment will grow significantly.

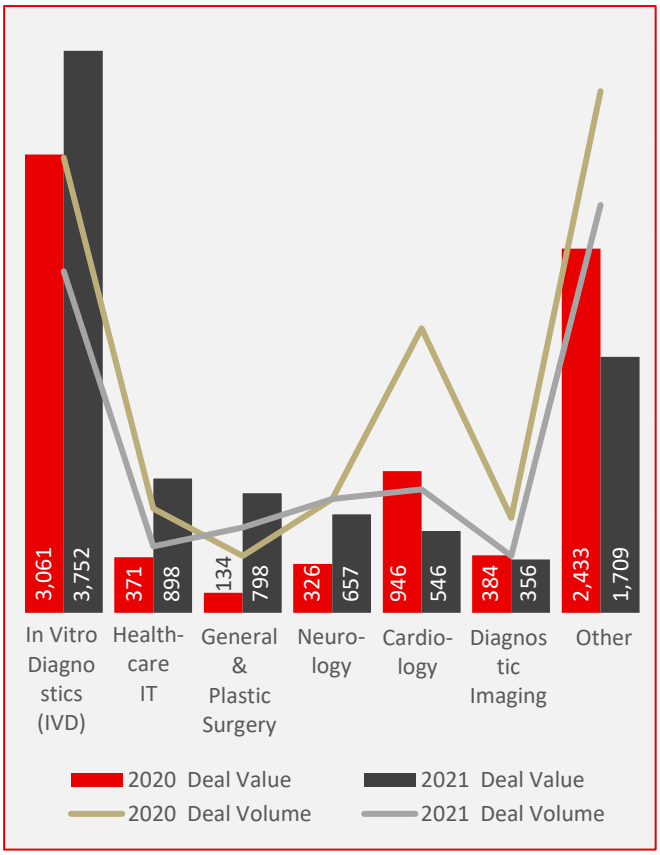


Deal stage distribution of medtech companies
(by deal value in $ million)

FOCUS AREA DISTRIBUTION

In Vitro Diagnostics (IVD) companies saw the most investment in the last two years both in terms of volume and value. In 2021, IVD VC investments grew by 22.6% from $3.1bn to $3.8bn, while the number of deals fell from 48 to 36. The second largest focus area by investment was Healthcare IT, with $0.9bn in 2021, and a 141.9% growth since 2020 ($371m). General & Plastic Surgery took third place with $0.8bn, which is a sixfold growth from $134m in 2020. In addition, Neurology investments doubled from $326m to $657m. Cardiology was second place in 2020 although it decreased by 42.2%, from $0.9bn to $0.5bn. Diagnostic Imaging showed a slight decrease in funding from $384m to $356m.

IVD will remain a priority focus area due to high development costs and a significant potential for return and impact. However, it is likely that investors will shift even more to other areas that require lower investments and reduced timeframes to commercialisation. Healthcare IT greatly benefited from the pandemic as healthcare shifted more to outpatient and remote health, and is likely to see a strong year in 2022.



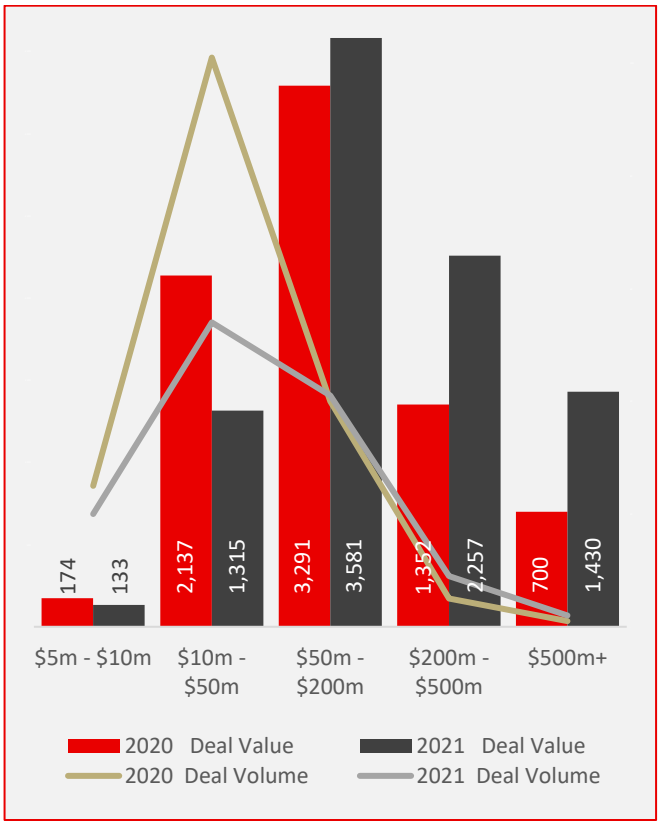
Focus area distribution of medtech companies
(by deal value in $ million)

DEAL SIZE DISTRIBUTION

As previously mentioned, 2021 saw a growth in the average deal size to $69.2m from $44.5m in 2020. The reason for this, is the increase in number and value of deals of over $50m as illustrated in the chart below. Furthermore, the number and value of deals below $50m decreased in 2021. The $500m+ deal size category saw the greatest

evolution with the value of deals doubling to $1.4bn from $0.7bn. The $200m - $500m range, saw a 66.9% growth, from $1.4bn to $2.3bn while the $50m - $200m range, which is the largest category, grew by 8.8% from $3.3bn to $3.6bn. Meanwhile, the $5m - $10m range saw a drop of 23.7%, while the $10m - $50m range decreased the most, by 38.5%.

In 2022, it is likely we will see a strong presence of investments in the $50m - $200m range, which traditionally holds a leading position, with a comeback of the smaller categories too, driven by early-stage investments.



Deal size distribution of medtech companies
(by deal value in $ million)

MEDTECH MERGERS AND ACQUISITIONS

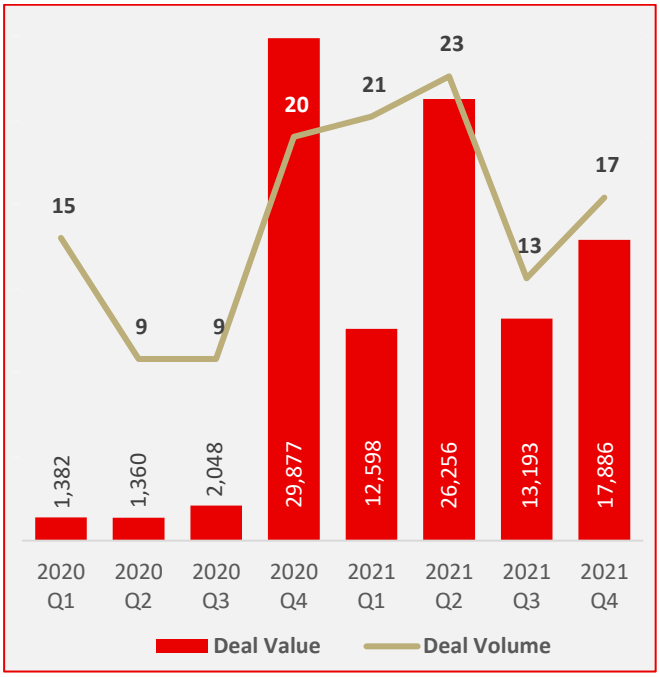
Another important indicator for investors is the 'exit' market for their assets, which is often done through merger and acquisition deals. In this section, medtech deals of 2021 are reviewed and contrasted with those of 2020.

GENERAL OVEVIEW

Even more dramatic than the evolution of VC funding, the level of M&A activity for medtech companies witnessed a tremendous positive dynamic. It is important to note that the first three quarters of 2020 were slow due to the COVID pandemic, which pushed back a number of deals to Q4.

Overall, the deal value doubled from $34.7bn in 2020 to $69.6bn in 2021. In fact, 2021 was the strongest year for medtech since 2017, when the M&A value was at $98.6bn. Deal volume also saw a 39.6% growth from 53 deals recorded in 2020 to 74 in 2021, resulting in a 44.3% increase in the average deal size from $654.8m to $945m.

The growth in deal size suggests surging competition for the acquisition of medtech assets caused by a higher interest from buyers, which often are mature life science companies that choose to purchase innovative assets rather than heavily invest in R&D.



Quarterly evolution of medtech M&A deal value and volume

TOP 5 MEDTECH M&A DEALS OF 2021

DATE	ACQUIRER	TARGET	FOCUS	COUNTRIES	DEAL VALUE	PROFILE
15 Apr 2021	SIEMENS Healthineers	VARIAN medical systems	Diagnostic Imaging		$16.4bn	This German company acquired Varian to expand its diagnostic imaging, radiology as well as IVD capabilities for better diagnosis and therapies and in particular, for cancer care.
13 Dec 2021	Baxter	Hillrom	General & Plastic Surgery		$10.5bn	Baxter, one of the leading medtech companies, made this acquisition to add complementary products to its range, and to create operational synergies. The Hill-Rom portfolio includes surgical and hospital equipment, patient monitoring devices and IT services.
8 Aug 2021	illumina	GRAIL	In Vitro Diagnostics (IVD)		$8bn	Illumina, one of the key companies that led the cost decrease of sequencing of a human genome from $1m to $1,000, purchased Grail, a company with which it had a long-standing partnership. Grail founded in 2015, develops IVD for early cancer detection.

DATE	ACQUIRER	TARGET	FOCUS	COUNTRIES	DEAL VALUE	PROFILE
2 Jun 2021	STERIS	CANTEL	Endoscopy		$4.6bn	Steris, a company specialised in sterilisation and surgical products, acquired Cantel Medical to grow its presence in the endoscopy, dental and dialysis medical device markets.
9 Feb 2021	PHILIPS	BioTelemetry	Patient Monitoring		$2.8bn	The Dutch company Philips, acquired BioTelemetry, focused on ambulatory, continuous, real-time outpatient monitoring solutions. This portfolio expansion is a strong fit, particularly the cardiac care products.

TOP 5 MEDTECH M&A DEALS OF 2020

DATE	ACQUIRER	TARGET	FOCUS	COUNTRIES	DEAL VALUE	PROFILE
30 Oct 2020	Teladoc HEALTH	Livongo	Diabetic Care		$18.5bn	Livongo, a company founded in 2014, which has raised a total of $235m in venture funds, had its IPO in 2019 of $355m at a $2.5bn valuation and was purchased for $18.5bn. It specializes in the development of diabetic care, healthcare IT and patient monitoring devices.
11 Nov 2020	stryker	WRIGHT FOCUSED EXCELLENCE	Orthopaedics		$5.4bn	Wright Medical, a medtech company focused on trauma and extremities products, was acquired in a deal that is highly complimentary to the current product range of Stryker.
2 Oct 2020	INVITAE	ARCHER®	In Vitro Diagnostics (IVD)		$1.4bn	Invitae Corporation, a leading genetics company, acquired ArcherDX. This transaction will enhance its products with improved risk profiling, diagnostic testing, therapy optimization and recurrence surveillance for cancer patients.
31 Dec 2020	Dentsply Sirona	byte®	Dental		$1bn	Byte, a company founded in 2017, which develops and commercialises orthodontic devices was acquired by a leading dental equipment company, Dentsply Sirona.
18 Nov 2020	STERIS	KEYSURGICAL	General & Plastic Surgery		$850m	Steris acquired a company focused on general surgical devices which are complimentary to their product range. In 2021, the company made it to the Top 5 acquisition list with its $4.6bn transaction for Cantel Medical.

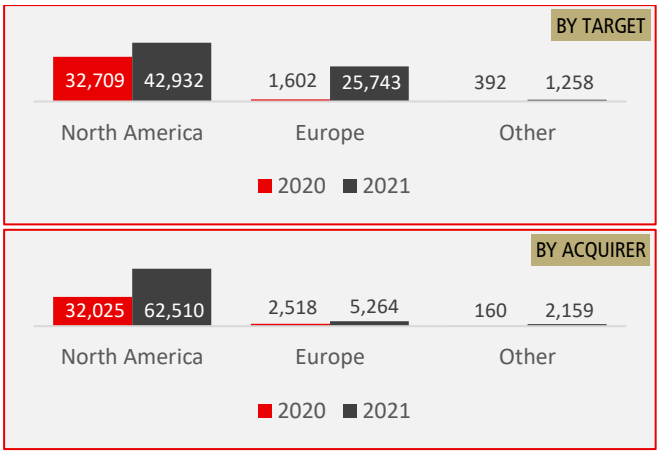
GEOGRAPHIC DISTRIBUTION

As the tradition goes, North America, and the US in particular lead the geographic distribution for both the Target and Acquirer classifications.

For Target statistics, North America saw a 95.2% increase, from $32bn in 2020 to $62.5bn in 2021, while the average deal size remained at around $1.2bn. In Europe, the deal volume more than doubled from $2.5bn to $5.3bn, while the average deal size increased 148.2% to $329m from $133m. In other regions, which were very passive in 2020, growth reached $2.2bn in 2021.

For Acquirer statistics, the European region saw a 16-fold jump in deal value due to 2 large deals (the $16.4bn acquisition of Varian Medical Systems, by Siemens Healthineers; and the $2.8bn acquisition of BioTelemetry by Philips) which both qualified for the Top 5 largest medtech deals.

This also led to a 20x increase in the average deal size for European Acquirers to $2.1bn from $107m. The North American Acquirer deal volume also saw an increase to $42.9bn, from $32.7bn, while the average deal size decreased from $935m to $781m. In the Other Countries, the deal value increased to $1.3bn.



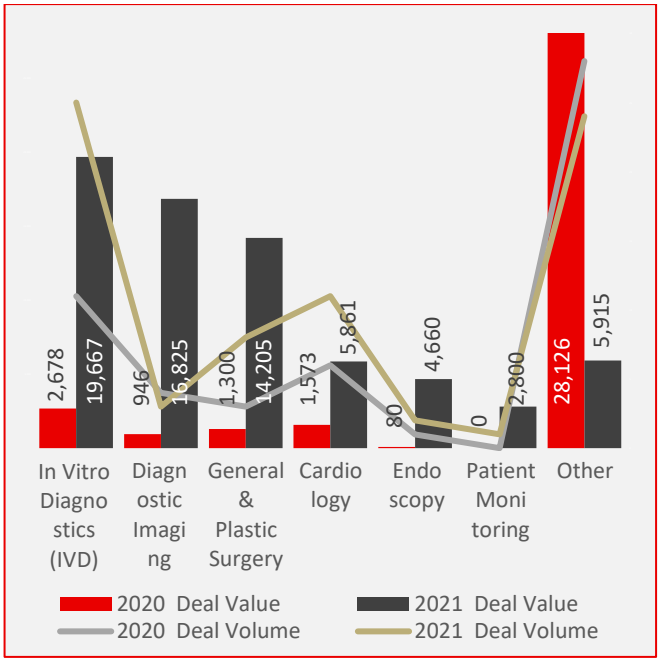
Geographic distribution of medtech companies (by deal value in $ million)

It is very likely that in 2022, there will be even more European Target companies, including those that already saw growing VC investment as previously outlined. It is also important to note that European Target companies tend to be significantly smaller, reflective of their earlier stage and greater potential for growth.

FOCUS AREA DISTRIBUTION

Similar to VC investments, the most popular focus area is IVD, where large costs also lead to large price tags for M&A; in 2021, the average deal size was $787m including the $8bn acquisition of Grail by Illumina, as well as a number of early-stage companies which decreased the average ticket value. Evolution of the Diagnostic Imaging area was driven by the $16.4bn Varian Medical Systems acquisition mentioned before and General & Plastic Surgery by the $10.5bn acquisition of Hill-Rom by Baxter International. In 2020, the $18.5bn acquisition of Livongo, a Diabetic care company by Teladoc Health, which is contained in the 'Other' category, skewed the distribution.

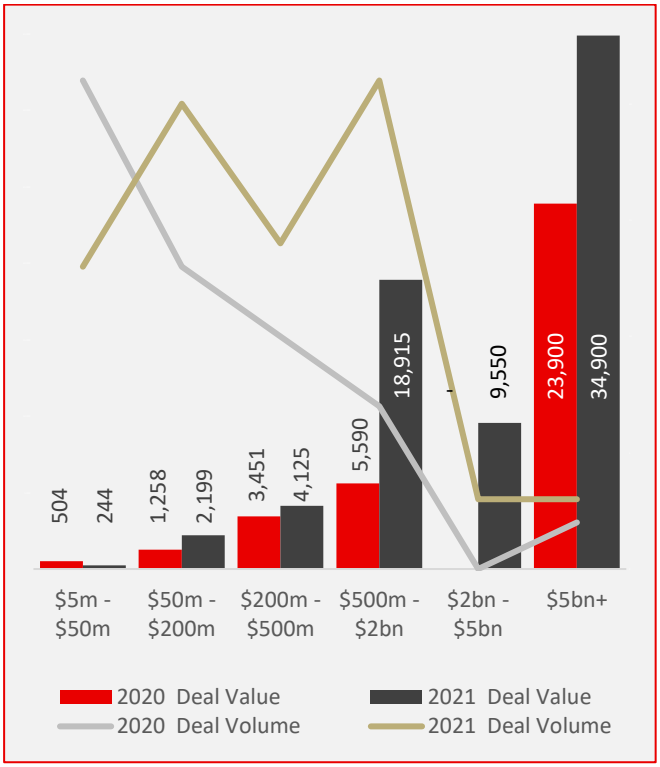
It is difficult to forecast which focus area will behave best in 2022, although it is likely we will see continuous leadership from IVD, as well as a significant role for Diagnostic Imaging, Cardiology and Patient Monitoring.



Focus area distribution of medtech companies
(by deal value in $ million)

DEAL SIZE DISTRIBUTION

Last year (2021) surpassed the year before in all deal size categories, both with regards to deal volume and value, with the only exception being the 'small deal size' (below $50m) which was larger than usual, indicating investor uncertainty around the pandemic. In 2021, there were a great number of large deals (above $500m) proving that investor confidence in medtech has returned. The most active focus areas in the 'above $500m' space, were IVD deals with a volume of 11 and value of $18.1bn, Cardiology with 5 deals totalling $4.5bn and General & Plastic Surgery with 4 deals totalling $13.6bn. These areas are likely to continue to dominate the medtech sector due to a rising demand for severe disease diagnostics, implants and treatments.



Deal size distribution of medtech companies
(by deal value in $ million)

WHAT WILL 2022 BRING TO MEDTECH...

The COVID-19 pandemic greatly impacted the medtech sector, with mixed results. On the one hand, it greatly benefited companies producing personal protective equipment, respirators and IVD, while on the other hand companies developing implants and surgical devices suffered with many elective interventions becoming indeterminate.

At first, this created much concern for patients, medtech companies and investors, although 2021 showed signs of great improvement and this trend is likely to gain even more traction in 2022. Jim Welch, the EY Global Medtech Leader, pointed out that data shows not only that medtech has weathered major challenges, but has entered a period of recovery and renewal. R&D continues to be at high levels, with spending growing by 17.2% in 2021, being the largest annual growth since before the 2007 financial crisis, signalling strong confidence in the industry's capacity to keep innovating.

2022 TRENDS

- R&D spending growth → innovation and new medtech directions
- Pandemic → new ways of delivering healthcare and patient monitoring
- New flexibility from regulators → faster and cheaper approval processes

Successful medtech companies will look for ways to offer new mechanisms to connect with patients, particularly in their homes, be that to deliver therapeutics, diagnostics or other tools for remote care. A step to support movement in this direction was made in November 2020, when the US Centers for Medicare & Medicaid Services introduced the Acute Hospital Care at Home program, providing eligible hospitals with unprecedented regulatory flexibilities to treat eligible patients in their homes. The program has already been adopted by hundreds of hospitals across the US and will continue to grow. Such initiatives will result in better treatment, and at earlier stages, which will significantly improve quality of life and treatment outcomes. Digital health is also playing a growing role in the management of chronic conditions ranging from diabetes to mental health.

During the pandemic, regulators have shown a higher degree of flexibility in the adoption of new ways to assess emerging technologies, which is likely to result in an updated approach to regulatory approval processes. This is particularly important for medtech, which is easier to assess and will boost the development and advancement of the sector.

Sources: Medtech Dive, MedDevice Online, Evaluate – medtech VC, Evaluate – medtech M&A, Evaluate Data Platform, and the Melior Insights Team

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MELIOR CAPITAL MANAGEMENT:
PIONEERING LIFE SCIENCE INVESTMENT

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