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Medtech dealmaking grinds almost to a halt

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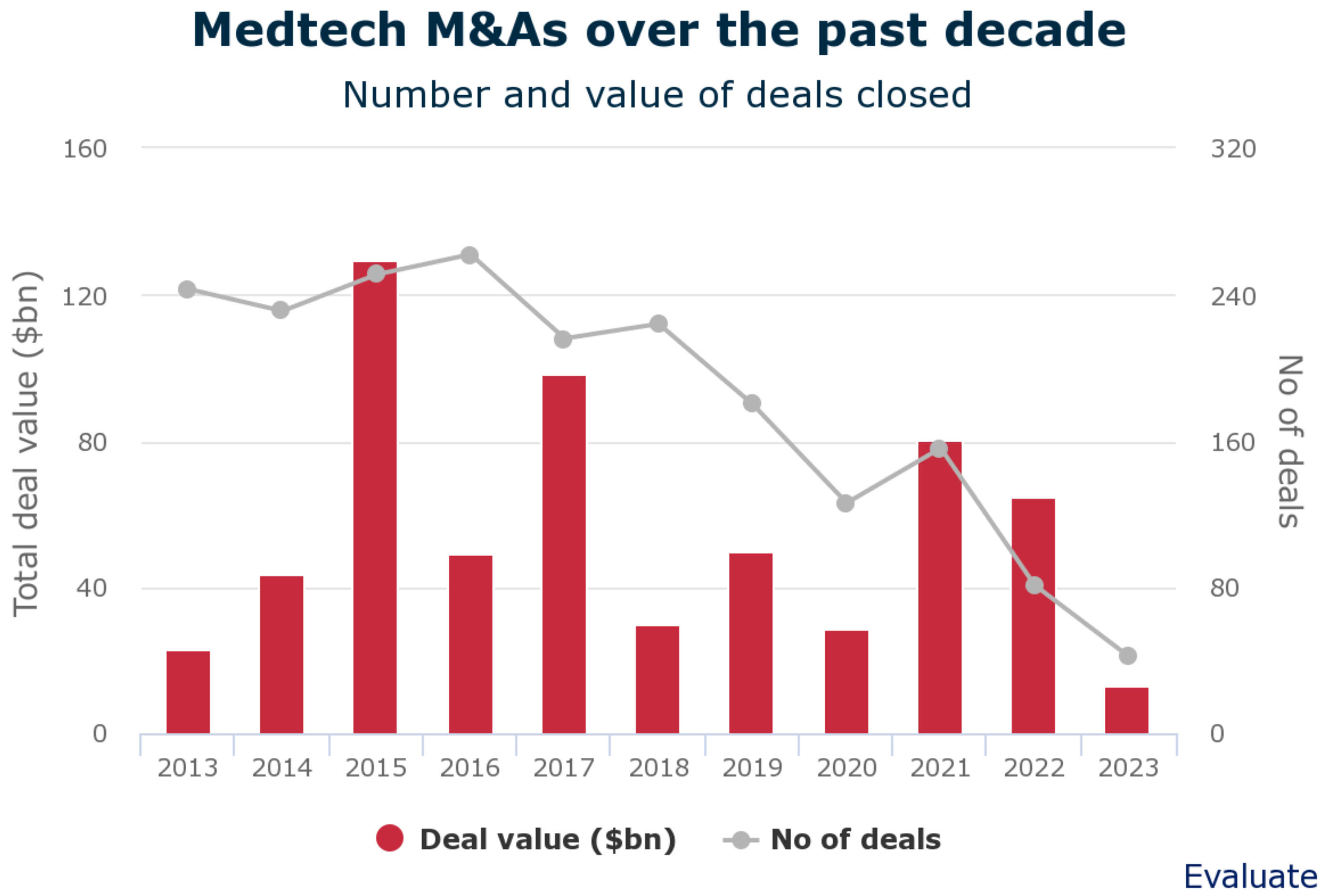
M&A moves are down, venture rounds few and IPOs nonexistent.

If 2022 was a disappointing period for medtech dealmaking, 2023 is shaping up to be even worse. The few mergers and acquisitions that have closed so far this year are more to do with companies divesting units than buying in innovative technology. And several others have resulted from private equity firms shuffling their assets.

When it comes to venture financings the picture is not a lot rosier. Less money has been raised than at any half-year point since June 2015, and just 65 deals were done. And the other route for private medtechs to raise cash is closed off completely: the first half of 2023 saw precisely zero medtech IPOs.

In the first half of this year, just 42 medtech acquisitions were closed, for a total spend of $13.1bn. Unless the second half picks up the pace, 2023 will see the lowest spend for a decade, and the fewest deals since *Evaluate Medtech* began tracking the sector.

The largest acquisitions to close this year were moves by private equity: Bain Capital bought the microscopy division of Olympus, which the Japanese group divested in order to better focus on its other medical imaging technologies.



The second largest deal, [Thermo Fisher's takeout of fellow diagnostics group The Binding Site], also had private equity involvement – this time as seller. Nordic Capital and a couple of other investment groups had acquired The Binding Site, which was already private, in 2011 for an undisclosed sum.

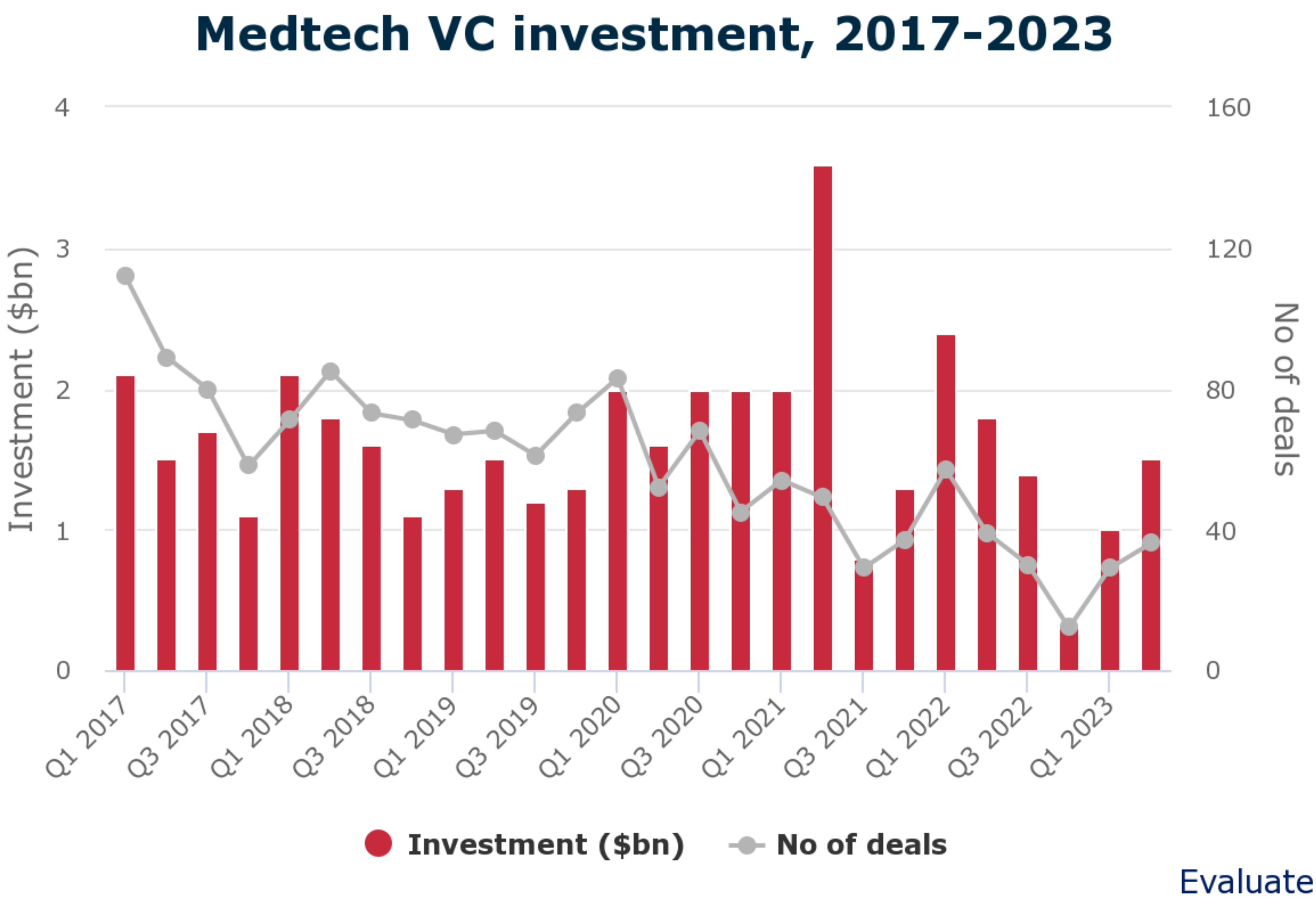
It is arguably surprising that in these times of depressed valuations more companies are not taking the opportunity to buy. Perhaps Illumina's disastrous, and [likely to be unwound], acquisition of Grail is putting buyers off. But that deal was closed without regulatory approval, an incredibly risky move that others could easily avoid.

Top 5 M&A deals of H1 2023				
Completion date	**Acquirer**	**Target**	**Deal value ($bn)**	**M&A focus**
3 Apr	Bain Capital	Evident, microscopy subsidiary of Olympus	3.1	Microscopy
3 Jan	Thermo Fisher Scientific	The Binding Site	2.8	In vitro diagnostics
15 Mar	Werfen Group	Immucor	2.0	In vitro diagnostics, healthcare IT
31 Jan	SD Biosensor	Meridian Bioscience	1.5	In vitro diagnostics
27 Apr	Abbott Laboratories	Cardiovascular Systems	0.9	Cardiovascular
Source: Evaluate Medtech.				

Many will hope that activity will pick up in the second half, though few major deals are currently open. The largest medtech deal to have been announced recently is the $3.1bn merger of the orthopaedics companies Globus Medical and Nuvasive. Part of Olympus's rationale for losing its microscopy unit was to allow it to acquire new businesses, so there is at least one company interested in buying. But its only move so far has been on the Korean gastrointestinal stent maker Taewoong-Medical, for just $256m.

Less venturesome

A look at the venture funding climate strongly shows that the vast rounds of the past – $900m for Grail in 2017, $1bn for Verily Life Sciences two years later – are no more. The first two quarters have seen the total venture cash raised by private developers tick up from the dismal final quarter of last year, but at $2.5bn this is the lowest first-half total since 2015.



What money there is seems to be going to developers of what might be thought of as “traditional” devices, rather than digital health, despite at least one VC firm – the European group Sofinnova – making a concerted push into the latter sector.

Instead the first half of 2023 saw coronary imaging specialist Heartflow close the first half’s biggest venture deal, at $215m; but this is not in fact the company’s largest venture financing, since it lags the $240m round Heartflow closed five years ago. The group is far from young. It was founded in 2007, and has been on a commercial footing for five years. In another year the group would be a decent candidate for an IPO.

Top 5 VC rounds of H1 2023				
Date	**Company**	**Investment ($m)**	**Round**	**Focus**
6 Apr	Heartflow	215.0	Series F	Cardiology
13 Apr	Saluda Medical	150.0	Undisclosed	Neurology
19 Apr	Noah Medical	150.0	Series B	Robotic surgery
19 Apr	Distalmotion	150.0	Undisclosed	Robotic surgery
27 Jun	Augmedics	82.5	Series D	Robotic surgery
Source: Evaluate Medtech, Pitchbook.				

Not one but three robotic surgery companies are also in the top five – an encouraging sign for a segment that has suffered badly in recent months. Clearly investors still see potential in these technologies.

There is no disguising that these are tough times for private medtechs in search of growth capital. Such is the belief in the public markets' hostility, only two device makers even considered floating in the first half of the year.

Neuraxis, which makes an FDA-cleared non-implanted nerve stimulator for the functional abdominal pain associated with irritable bowel syndrome, set terms for a $15m Nasdaq IPO in January, but in a filing last month said it would downsize the offering to $8m and conduct it on the NYSE American.

And surgical adhesives company Optmed, which had filed for a $23m Nasdaq float in June 2022, withdrew the plan in June 2023. At the end of last year it was clear that medtech IPOs were dwindling. The industry must ask itself what needs to change to permit the window to reopen.

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