

State of European HealthTech 2022



HealthCare IS HealthTech...

how the retreat from telemedicine is driving technology innovation across the industry

Welcome to Finch Capital's first edition of the **"State of European HealthTech"** report in which we take a closer look at Europe's HealthTech sector. We focus on 4 core metrics that provide an analysis of the sector and the trends that will likely emerge : (1) State of Founders (2) State of Funding (3) State of Talent, and (4) State of Exits.

The European HealthTech ecosystem is young compared to that of the US but COVID has boosted innovation and adoption in a number of verticals. Many are now looking to the sector to provide answers to the chaos and crisis healthcare services face post pandemic. These topics provide a good foundation for assessing the health of the vertical in the years ahead.

Finch Capital is a European Thematic Growth Investor. We currently focus on 3 themes: Health, Finance and Real Estate 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 (HCM focused on healthcare), Goodlord, Grab, 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, London and Dublin. For more information see www.finchcapital.com and subscribe to our newsletter.

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How we define HealthTech

Finch Capital's focus areas in HealthTech

Examples

YTD 2022 funding

Telemedicine



€1,518 M

- Provision of health care services such as consultation/ therapy remotely or in a digital format.
- **Examples:** virtual GP provision

Hospital & clinical management



€1,110 M

- Includes software and IT solutions that hospitals and other health care providers such as GPs, care homes, and dental clinics use for administrative purposes.
- **Examples** practice management, EHR, billing systems

Insurtech



€233 M

- Includes businesses that use technology to offer health insurance products as well as solutions that health insurers/corporates could use to improve processes and outcomes for end customers.
- **Examples** health insurance portals

Digital Health & Wellness



€137 M

- Provision of health care services such as consultation/ therapy remotely or in a digital format.
- **Examples:** Apps offering coaching/trainers for mental health, fitness and nutrition

Biotechnology/ drug development



€1,292 M

- Includes research/life science based solutions to procedural health.
- **Examples** specialised therapies and medicinal solutions, nano technologies, AI drug discovery technologies

Testing and diagnostics



€535 M

- Includes software and services such as testing kits, DNA analysis, diagnostic software in non-hospital settings.
- **Examples:** direct to consumer health tests, diagnostic tools

The healthcare landscape is evolving faster than ever and the pandemic proof the need for digital innovation. European HealthTech will see a new dawn as providers become more open to using software to make their services more efficient

- **Europe's most successful first generation entrepreneurs have no background in health**, while the second generation has. Unicorn alumni have collectively raised over €40M
- **Normalised for COVID boost HealthTech Funding remains resilient**, considering 2021 an outlier, healthtech funding in YTD 2022 has grown by 38% over 2020
- Unlike most tech verticals, **HealthTech is not driven by mega deals**, with the top 10 deals accounting for 28% of total deal volume in 2022
- **Hiring in HealthTech remains strong compared to other tech sectors except for telemedicine**, companies in software and biotechnology/drug discovery are active in the market with 10% of total FTE roles still outstanding
- **Demand for HealthTech from strategics is growing**, HealthTech M&A is becoming more evident and now accounts for 19% of total M&A in the Healthcare sector

European HealthTech funding will transition from telemedicine to strategic roadmaps of insurers and other healthcare IT providers and funding will bounce back in 2023:

- *Strategic value in assets will continue to drive valuations in HealthTech with +20 M&A deals per quarter*
- *M&A starts becoming more focused on HealthTech vs. Healthcare particularly in PE industry*

Healthtech has proven to be an increasingly important and resilient tech vertical

1. Second generation founders have domain expertise

For example:



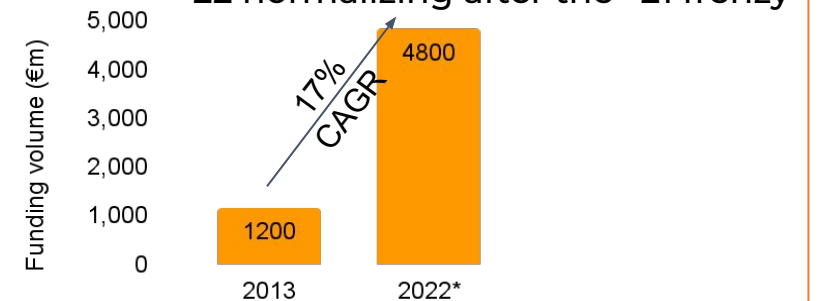
3. Hiring slowed down

War on talent is over but companies are still hiring

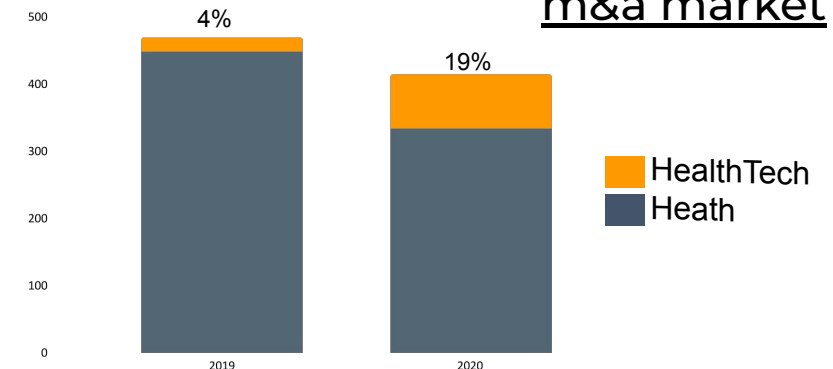


2. Resilient growth through the cycle, and less concentrated

'22 normalizing after the '21 frenzy



4. Resilient growing health tech m&a market



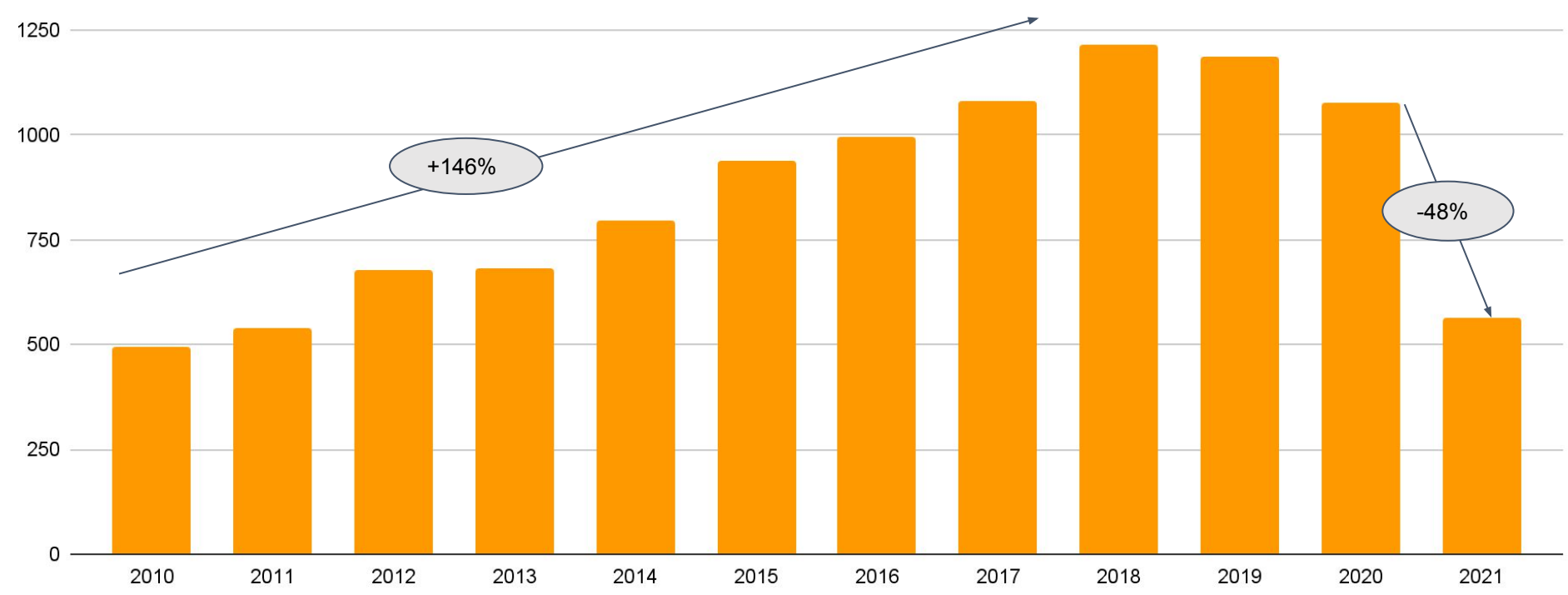
1. State of Founders



Europe's most successful first generation entrepreneurs have no background in health, while the second generation has. Unicorn alumni have collectively raised over €40M

Steep decline in new founded Health Techs since COVID

Number of Health Techs founded per year

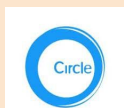


Source: Finch Capital Analyses, Pitchbook

Europe's first generation of HealthTech founders inspired new experienced entrepreneurs

Babylon

Total funding \$1.1bn



Circle Health
Founded

Kry

Total funding \$728m



Founded



E-commerce group
Founded

Alan

Total funding \$558m



Founded

Doctolib

Total funding \$815m



Otium Capital



Founded

Since the health-tech sector is still in its infancy, unicorn founders often have a general entrepreneurial or tech background in contrast to specific sector experience. However, a second generation of health-tech startups are founded by people with sector experience

Alan

Combined funding \$5m



Vitaance



Fraction



Revyze



Logbook

Doctolib

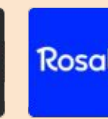
Combined funding \$39m



KMTX



Vibe



Rosaly



Verifix



Unkle



Modjo



Faume



Bulldog



Myr.ai



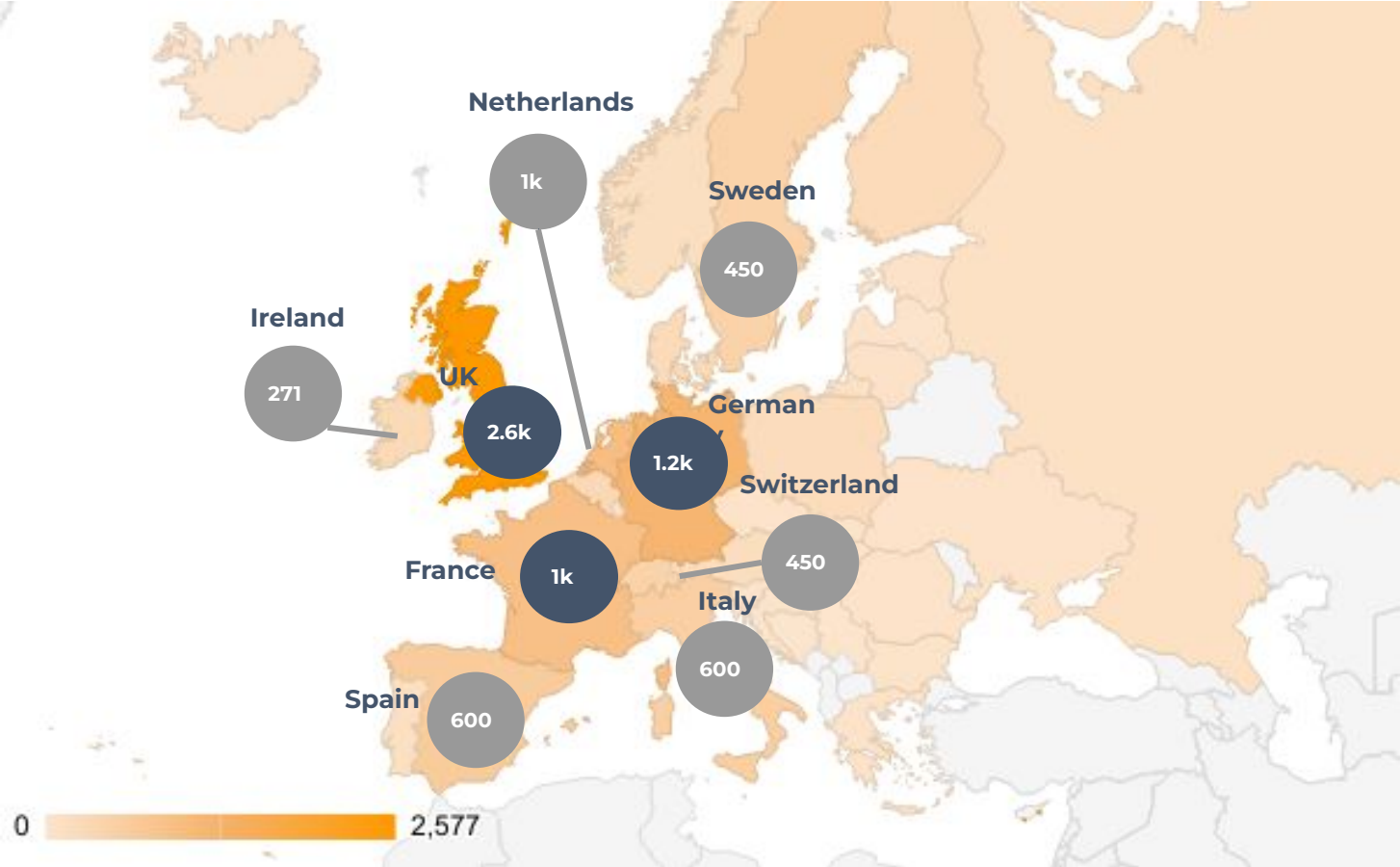
Motto



Teleport

Grants alone do not build a thriving health tech ecosystem

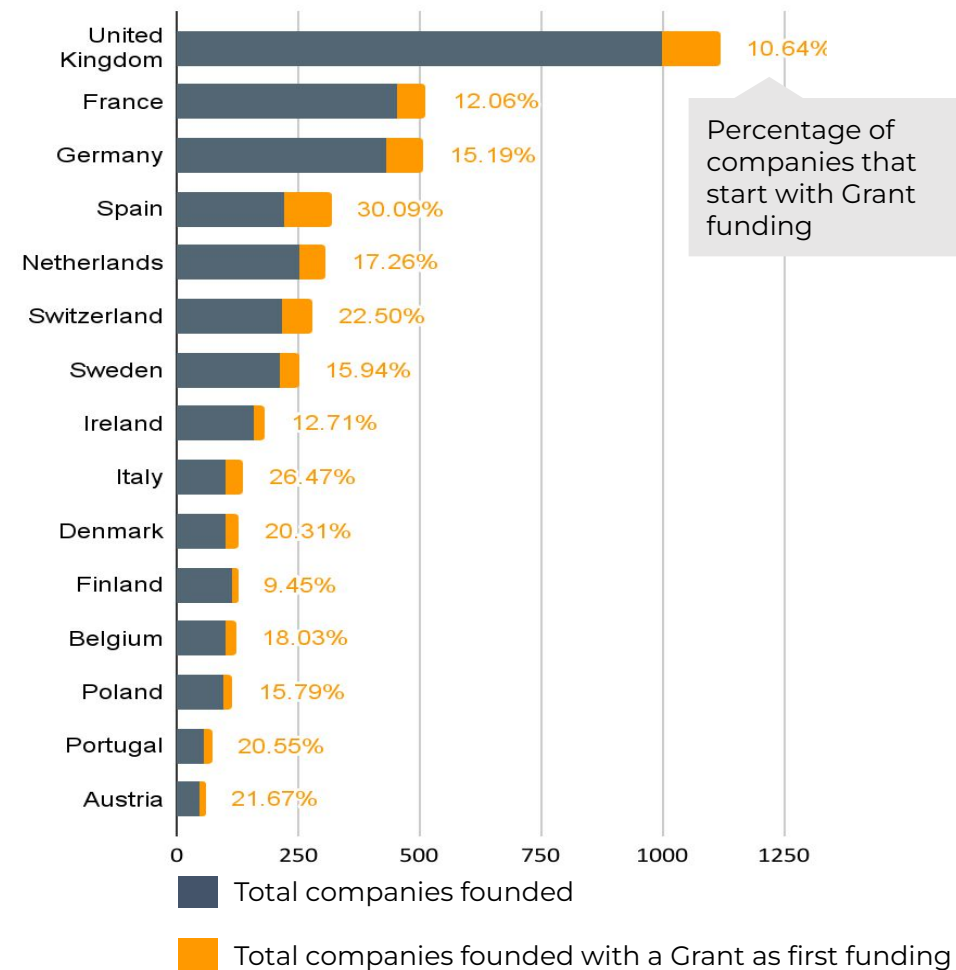
Over a 10k startups founded in Europe over the last decade



Source: Finch Capital Analyses, Dealroom

of healtech startups founded by country over the last decade

Companies founded backed by Grants

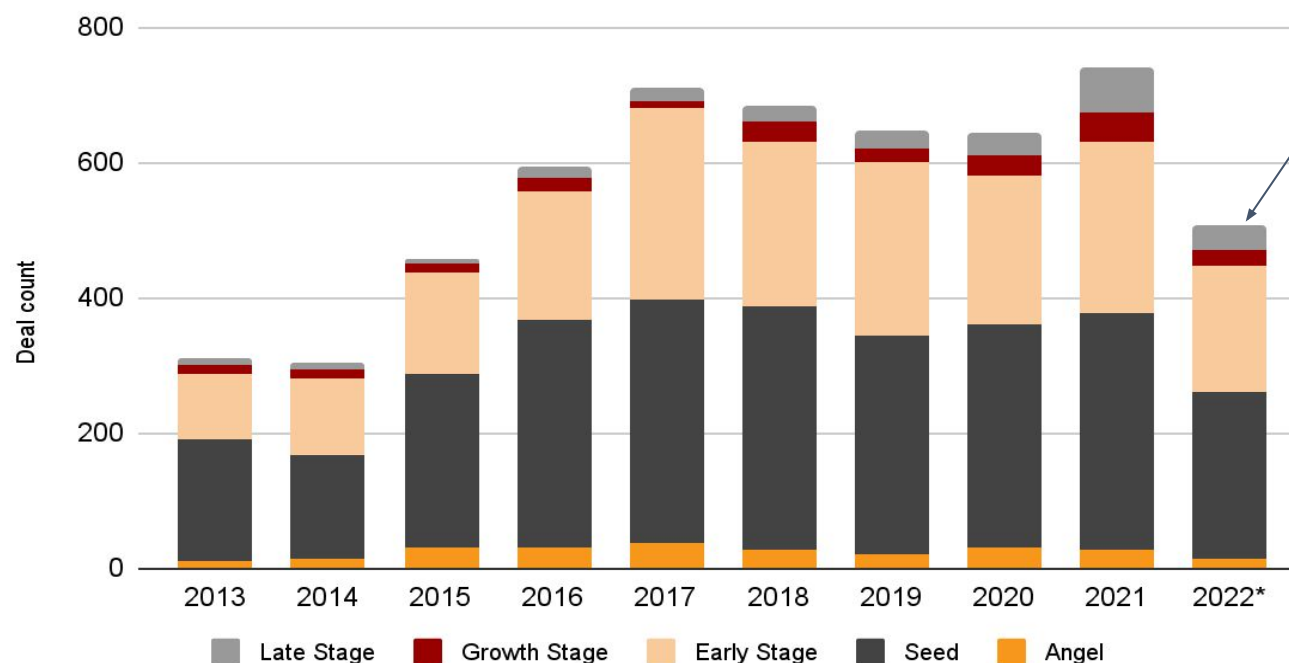


2. State of Funding

Normalised for COVID boost HealthTech
Funding remains resilient, considering 2021
an outlier, healthtech funding in YTD 2022
has grown by 38% over 2020

VC deal activity in Healthtech slows down but fares better than other technology verticals

Overall deal activity in European Healthtech expected to slow down in line with economic scenario



Healthtech deals are expected to drop by 18% in 2022 versus 26% for fintech and 32% for transport tech**

The number of deals in healthtech has dropped by 17% in YTD 2022 versus the same period last year; seed and early stage deals dominate at 86% of total deal volume

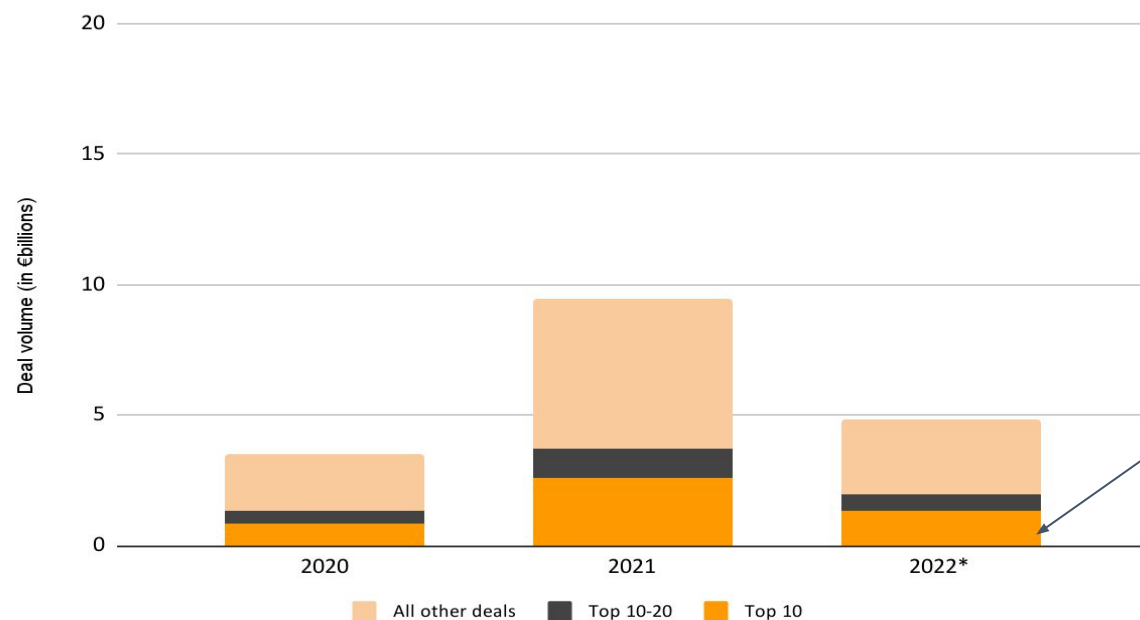
Source: Dealroom, Pitchbook

* YTD 30th Oct 2022, includes only rounds for which stage/series are disclosed

**Transport Tech includes delivery, supply chain and ridesharing

Volume of megarounds has dropped in 2022 as seed and early stage deals dominate the space

Within healthtech overall funding volume is driven by smaller funding rounds

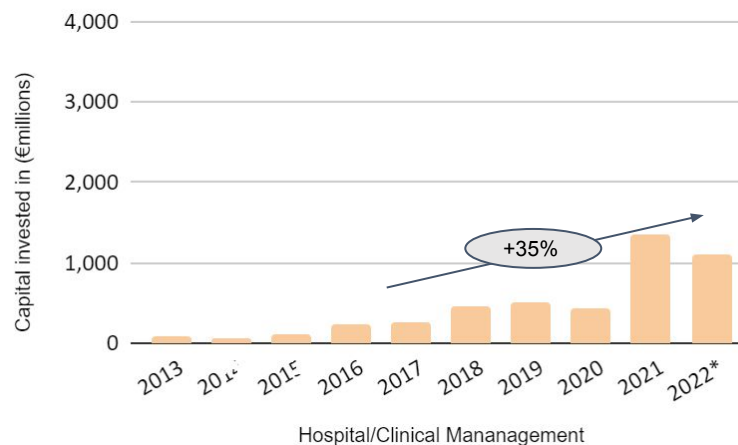
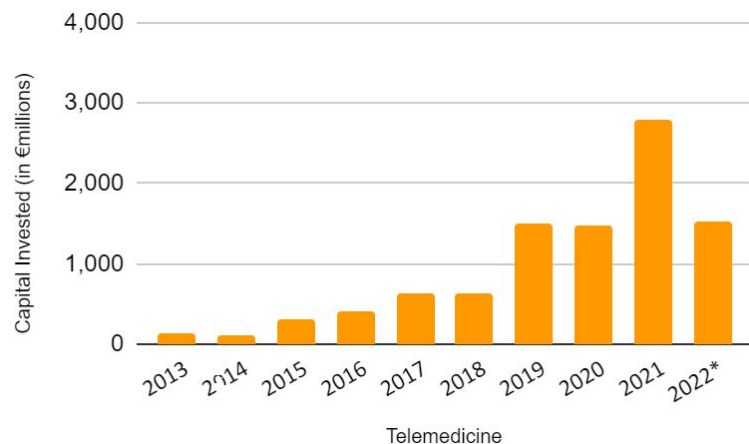


In healthtech top 10 deals make up 28% of deal volume; for comparison, in fintech the top 10 deals make up 44% of all deals

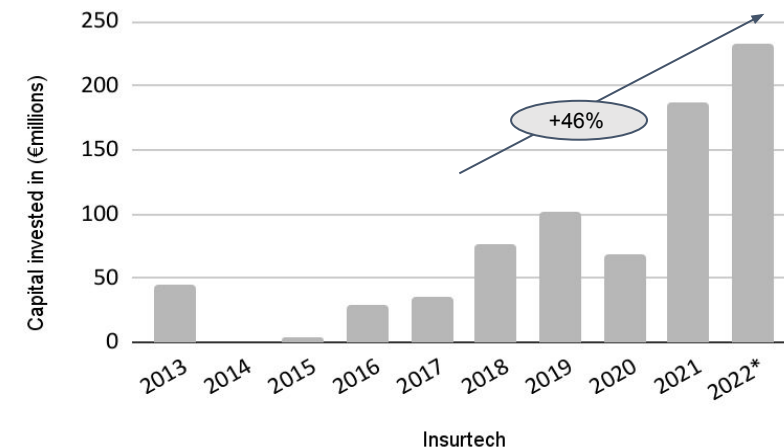
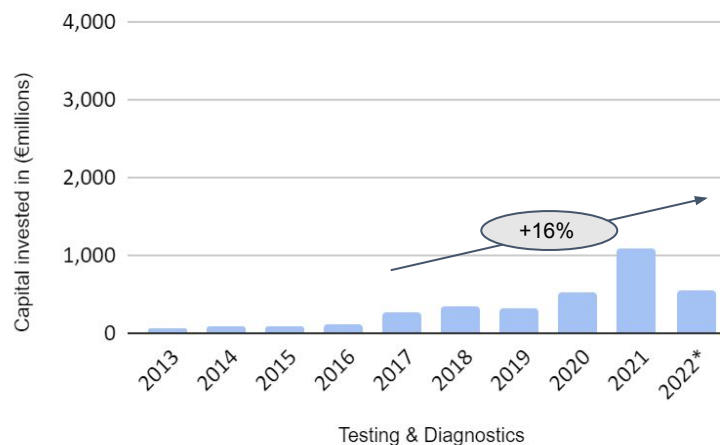
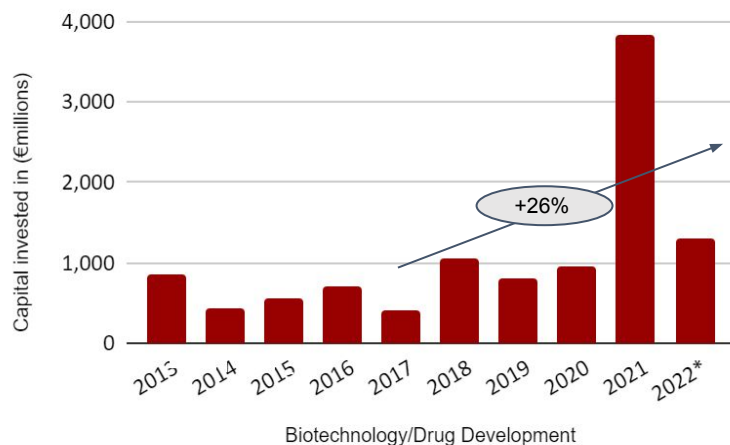
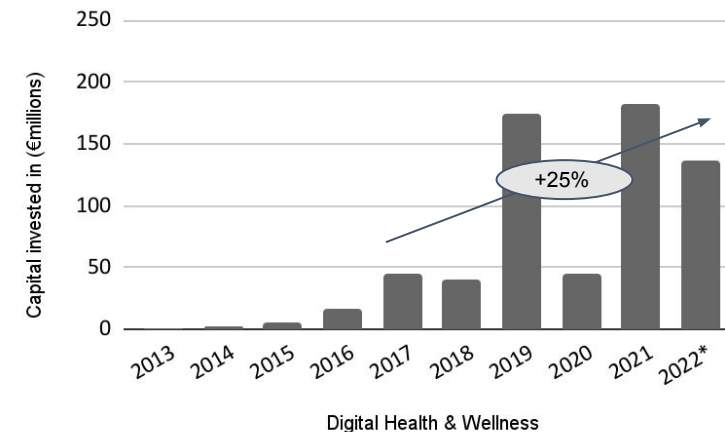
Total deal volume is declining in the short term due to drop in smaller rounds as the sector consolidates and matures

Despite the contraction, Telemedicine continues to be a big segment in HealthTech but that will likely change

Mature: Over €500M



Emerging: Below €250M



* YTD 30th Oct 2022

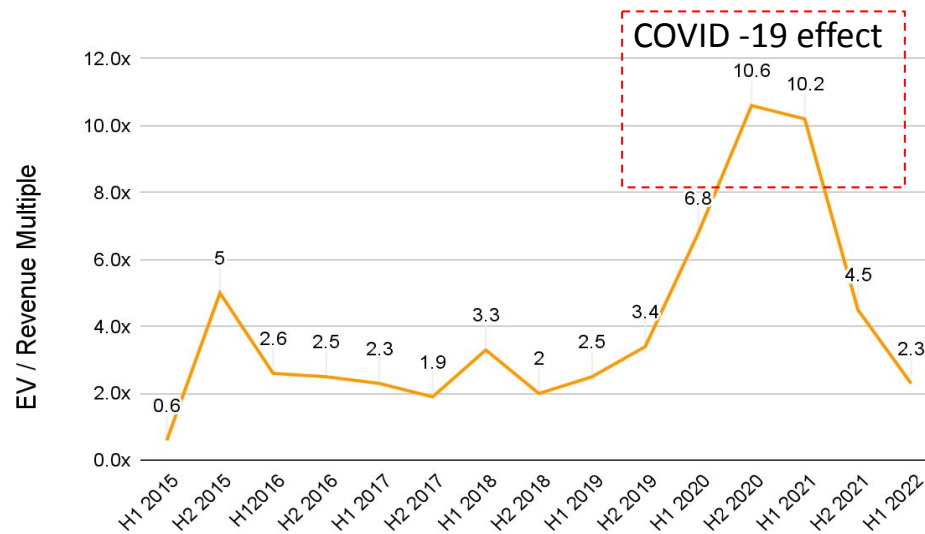
Source: Finch Capital Team analyses, Dealroom

Public market multiples fall to pre-COVID levels

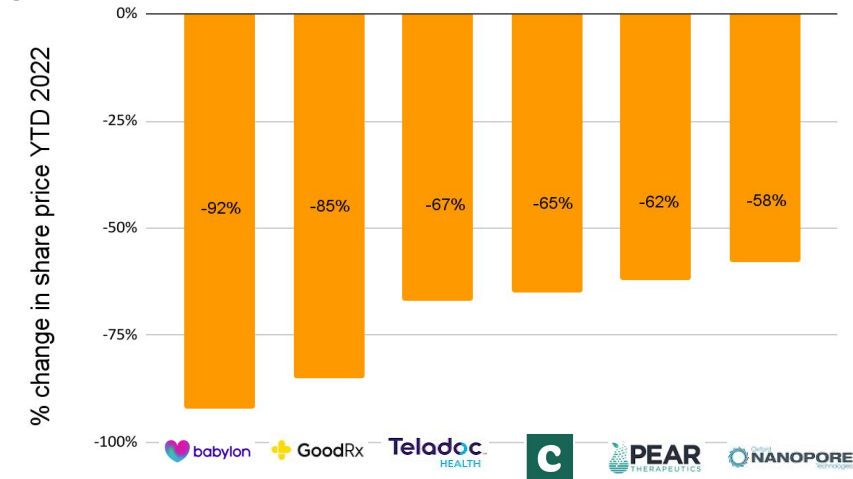
Public market multiples back to 2019 levels because of decrease in activity and operational results

Leading public healthtech companies record more than 50% drop in share price in 2022

Global Public EV/ Revenue multiples*



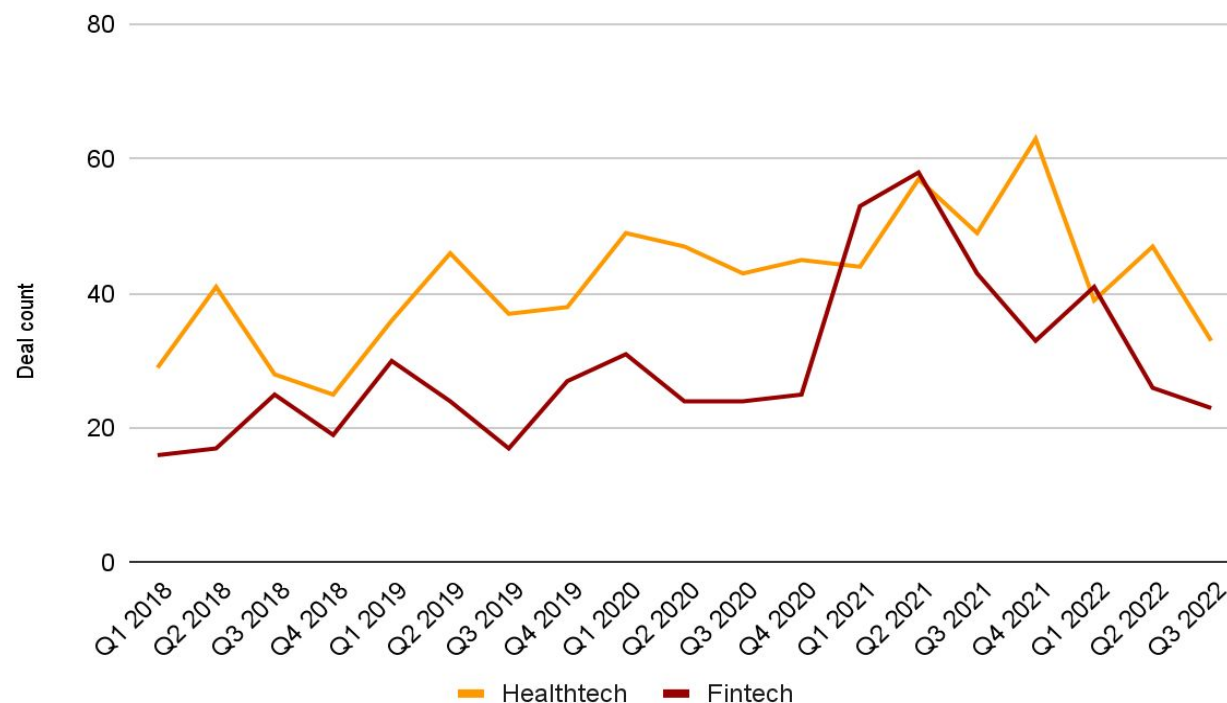
Drop in share price of listed healthtech companies



▶ Effect of re-rating in the public markets during H1 2022 can be seen in valuations for M&A and IPOs in Q3 2022

The largest CVCs are still investing globally, but Europe has seen some declines

Investment from global CVCs in European HealthTech has dropped from its peak level in 2021...



▶ CVC participation in healthtech dropped by 48% compared for example to a 60% drop in FinTech

...but the most active global healthtech CVCs largely maintain their investment track record in the sector

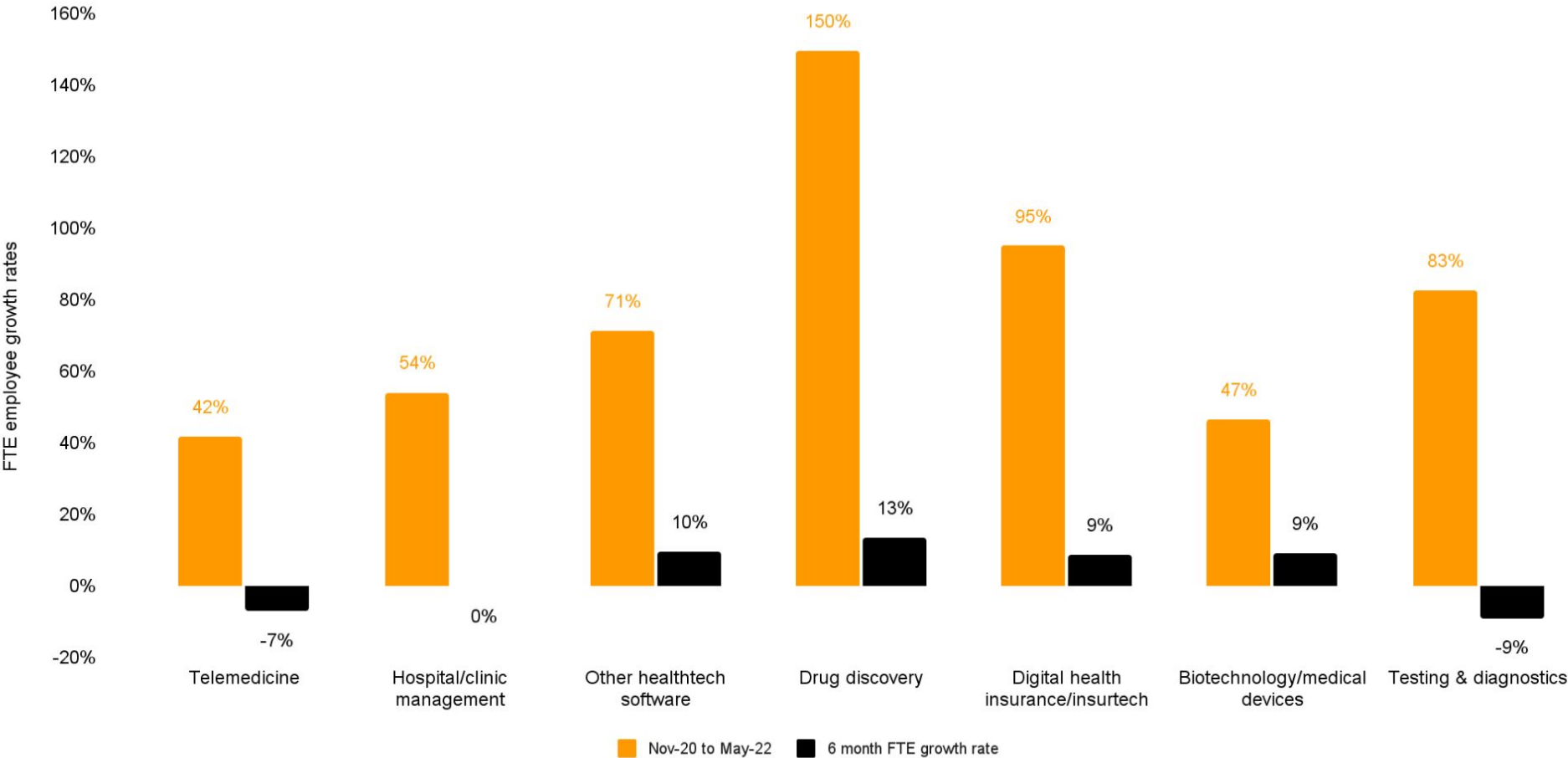
	avg 20/21	2022**	YTD YoY %
	21	16	-24%
	16	14	-10%
	3	7	+180%
	12	7	-42%
	9	7	-22%
	3	6	100%
	6	6	0%
	5	6	+33%
	10	6	-37%
	4	5	+25%

3. State of Talent

Hiring in HealthTech remains strong compared to other tech sectors except for telemedicine, companies in software and biotechnology/drug discovery are active in the market with 10% of total FTE roles still outstanding

HealthTech is still hiring despite a massive slowdown

Last 6 months have seen an average of 4% growth in FTE dragged down by 2 sector, compared for example to the FinTech vertical that saw 10% growth



Source: LinkedIn employee data (weighted average)
Telemedicine: Babylon, KRY, HealthHero, Ada, Cera; Hospital/Clinic Management: Lantum, Patchwork, Birdie, Accurx, Allocate; Other healthtech software: Infermedica, Lumeon, Huma, Proximie, Doctolib; Drug discovery: BenevolentAI, Exscientia, Healt; Digital health insurance/insurtech: Alan, ManyPets, YuLife, Ottonova; Biotechnology/medical devices: CMR, Sophia, Oxford Nanopore, Mindmaze; Testing & diagnostics: Thriva, LumiraDx, Binx Health

In Europe, the telemedicine vertical has been downsizing

Top 20 Companies in terms of layoffs

	Company	Location	# Laid Off	Date	%
1	Invitae	SF Bay Area	1000	7/19/2022	
2	GoHealth	Chicago	800	8/9/2022	20%
3	MFine	Bengaluru	600	5/21/2022	75%
4	WeDoctor	Non-U.S.	500	3/2/2022	
5	Noom	New York ...	500	10/11/2022	10%
6	Noom	New York ...	495	4/29/2022	
7	Olive	Columbus	450	7/19/2022	31%
8	Cerebral	SF Bay Area	400	10/24/2022	20%
9	Sage Therapeutics	Boston	340	4/7/2020	53%
10	Kry	Stockholm	300	10/31/2022	10%
11	Carbon Health	SF Bay Area	250	6/2/2022	8%
12	Sema4	Stamford	250	8/15/2022	13%
13	Truepill	SF Bay Area	175	8/11/2022	33%
14	Cue	San Diego	170	6/27/2022	
15	Calibrate	New York ...	156	7/8/2022	24%
16	Bridge Connector	Nashville	154	11/17/2020	100%
17	Curology	SF Bay Area	150	3/16/2022	
18	Truepill	SF Bay Area	150	6/8/2022	15%
19	Healthcare.com	Miami	149	8/3/2022	
20	GoodRx	Los Angeles	140	8/31/2022	16%

European companies

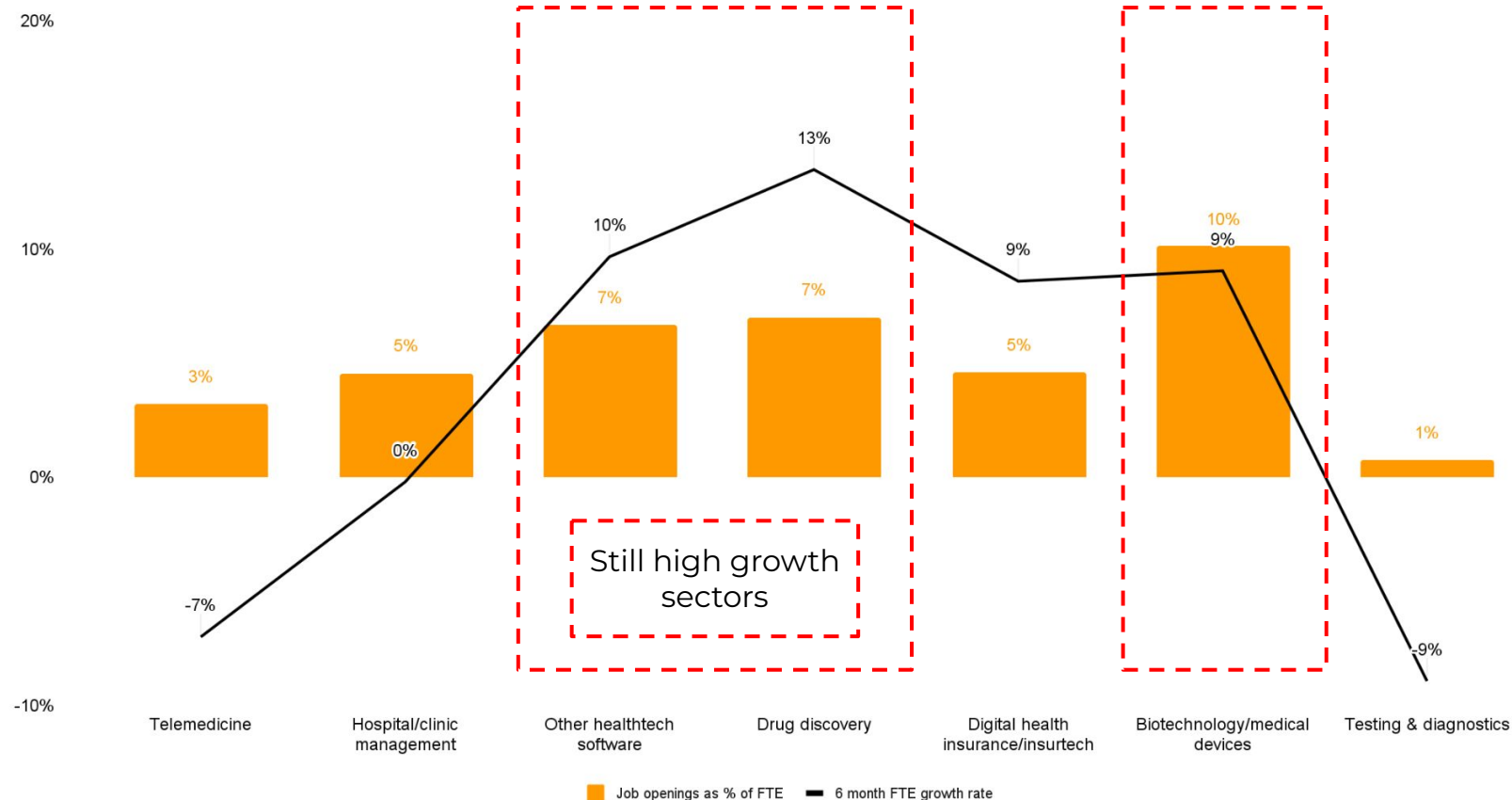
10,000+ reported healthtech layoffs globally

In Europe, KRY and Babylon account for most of layoffs

...with businesses that over-hired for a consumer push affected the most

Telemedicine and testing/diagnostics are the only 2 sectors that are shrinking in terms of people

Net FTE growth



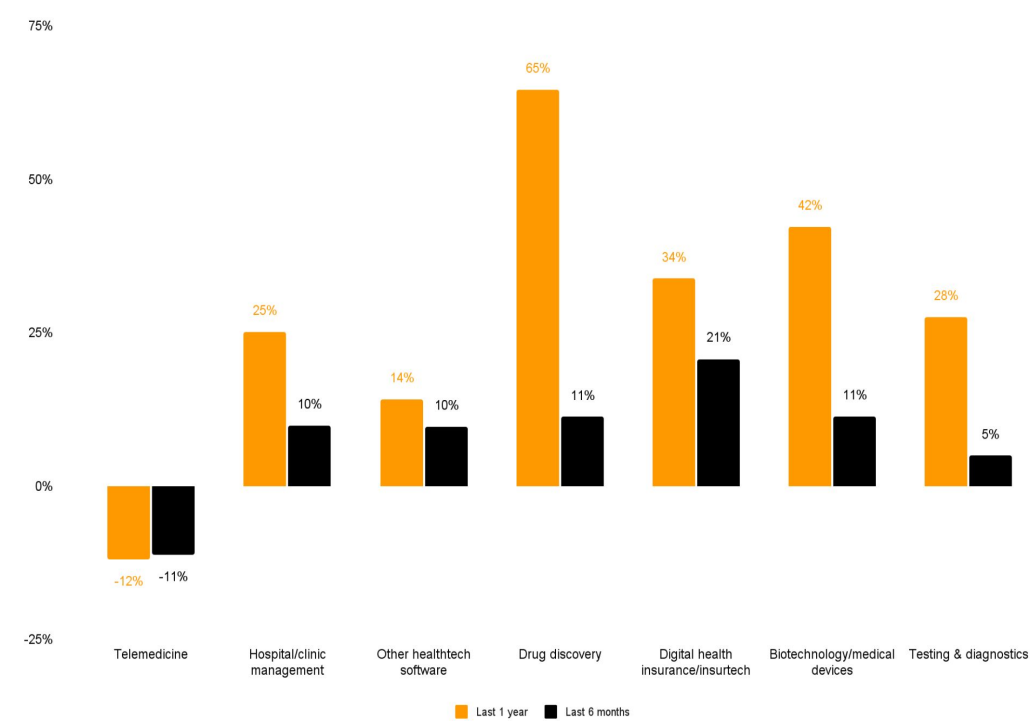
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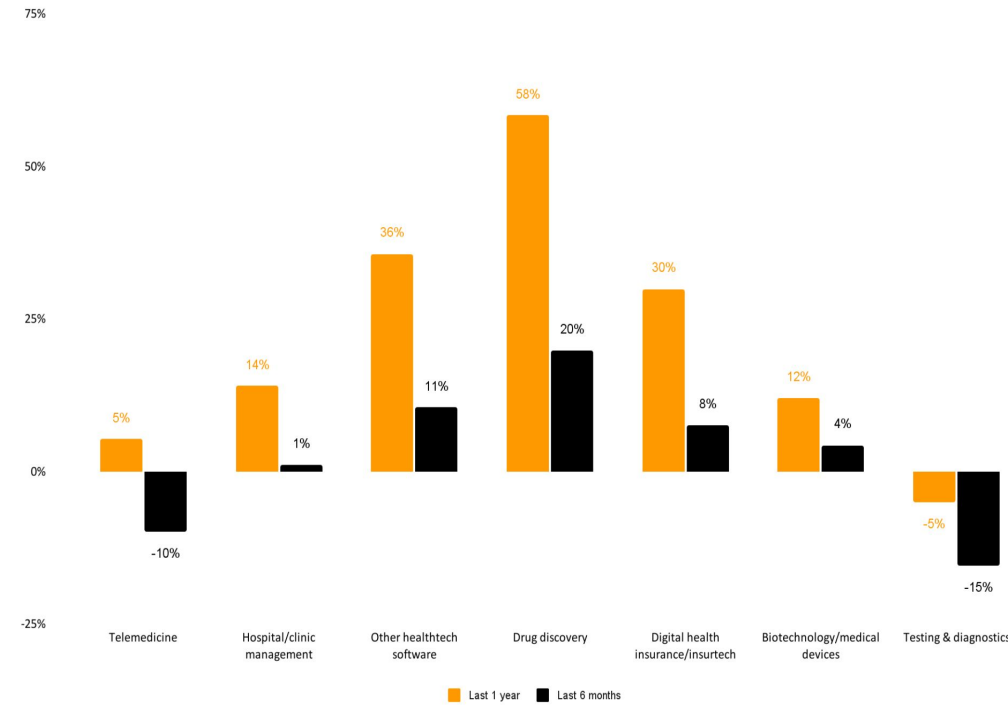
Unlike other verticals, both sales and engineering team growth as week affected proportionally



Growth in Sales FTE



Growth in Engineering FTE



70% drop across both the verticals. For example FinTech saw a 65% drop in sales and 80% drop in engineering

Source: LinkedIn employee data (weighted average)
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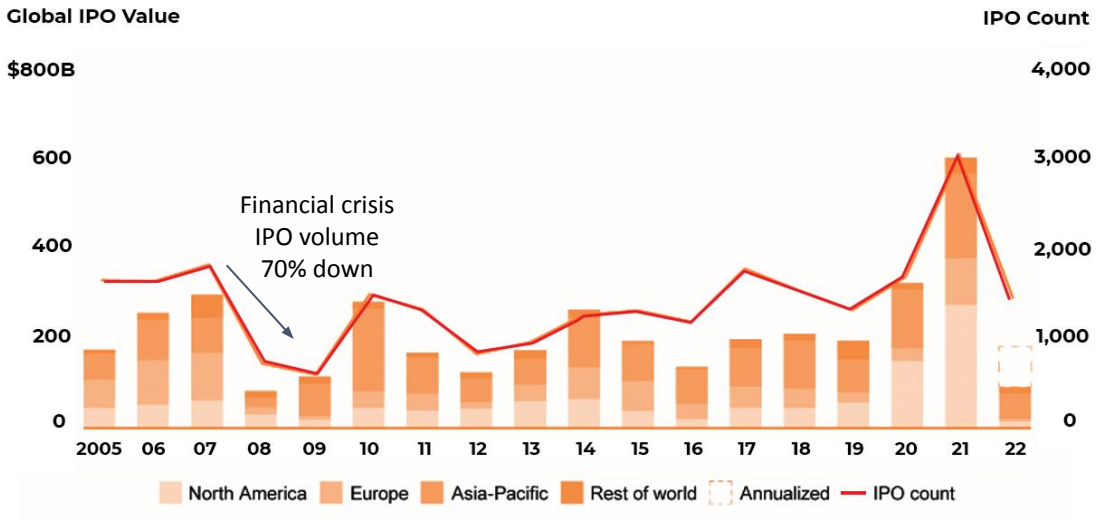
4. State of Exits



Demand for HealthTech from strategics is growing, HealthTech M&A is becoming more evident and now accounts for 19% of total M&A in the Healthcare sector

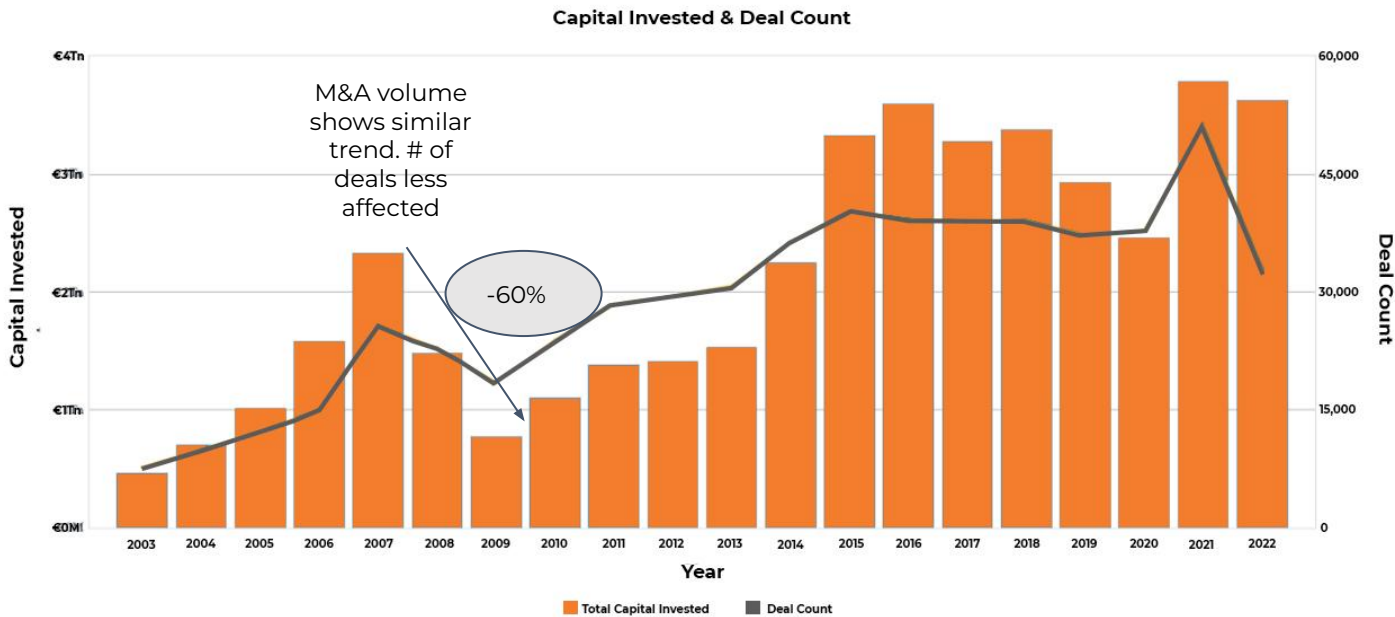
IPOs 2005 - 2022

Global IPO volume has slowed down dramatically



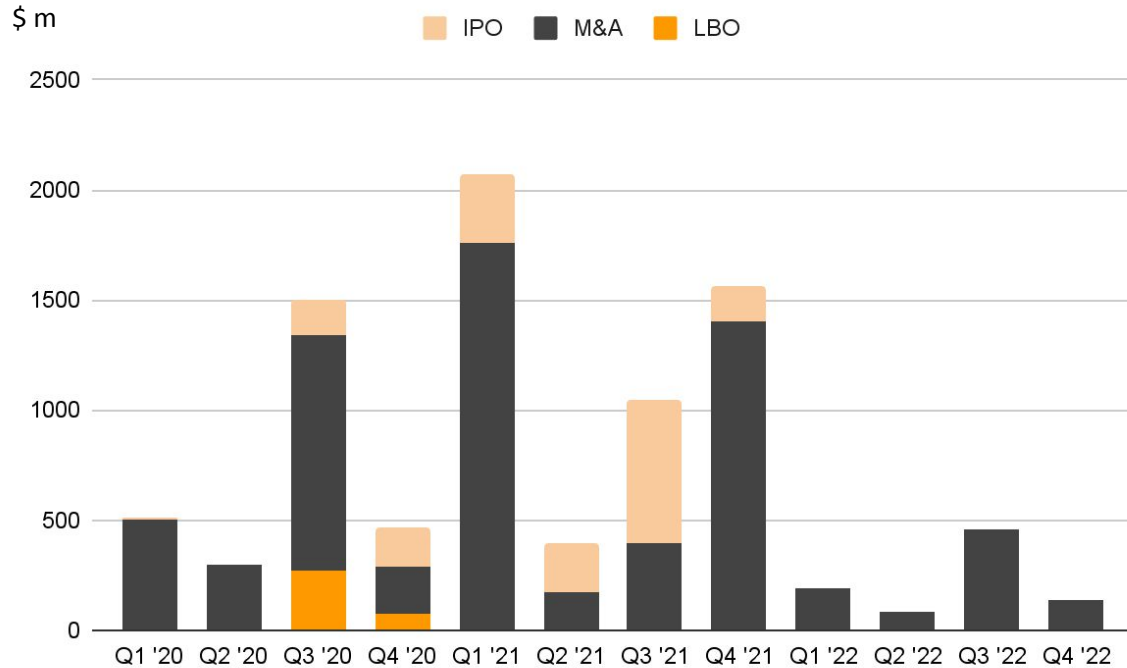
M&A deals 2005 - 2022

Global M&A number of deals coming down, showing first signs of downward trend after stable period

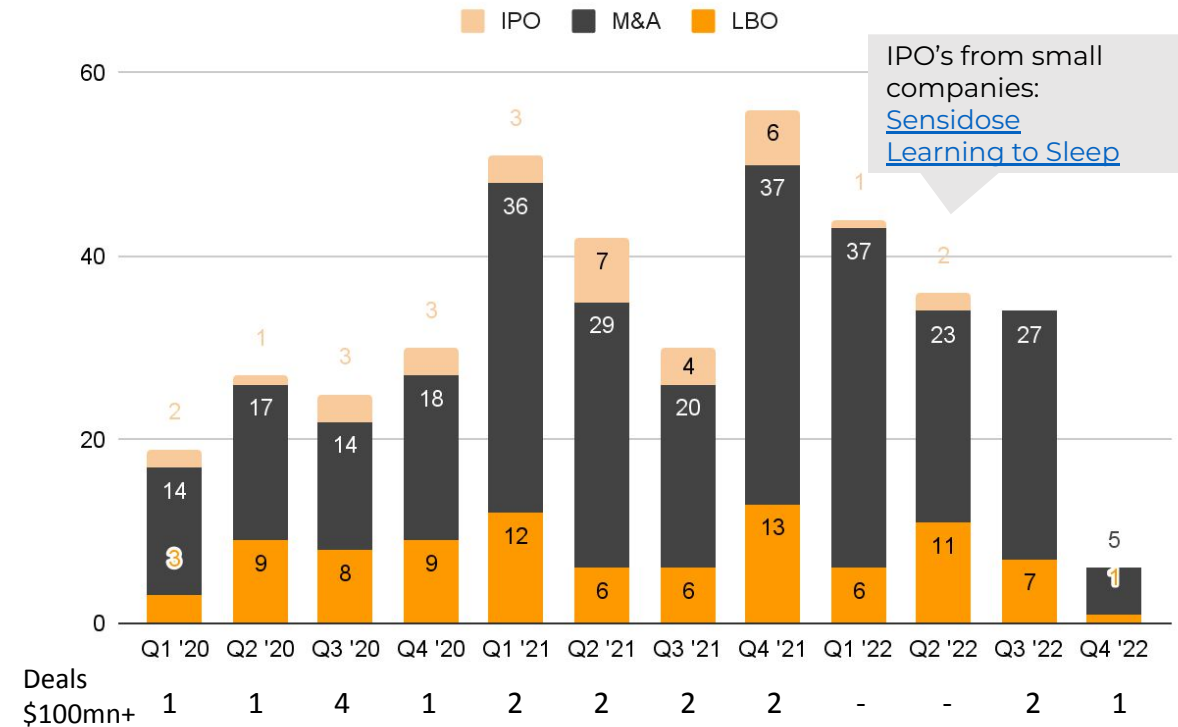


Growing demand for HealthTech from strategics as M&A activity recovers

European Healthtech Exits - by Value



European number of Healthtech Exits - By Count



Valuation

In '22, the valuations took a big hit, especially considered 2 of the 27 rounds were >\$100m

Downturn

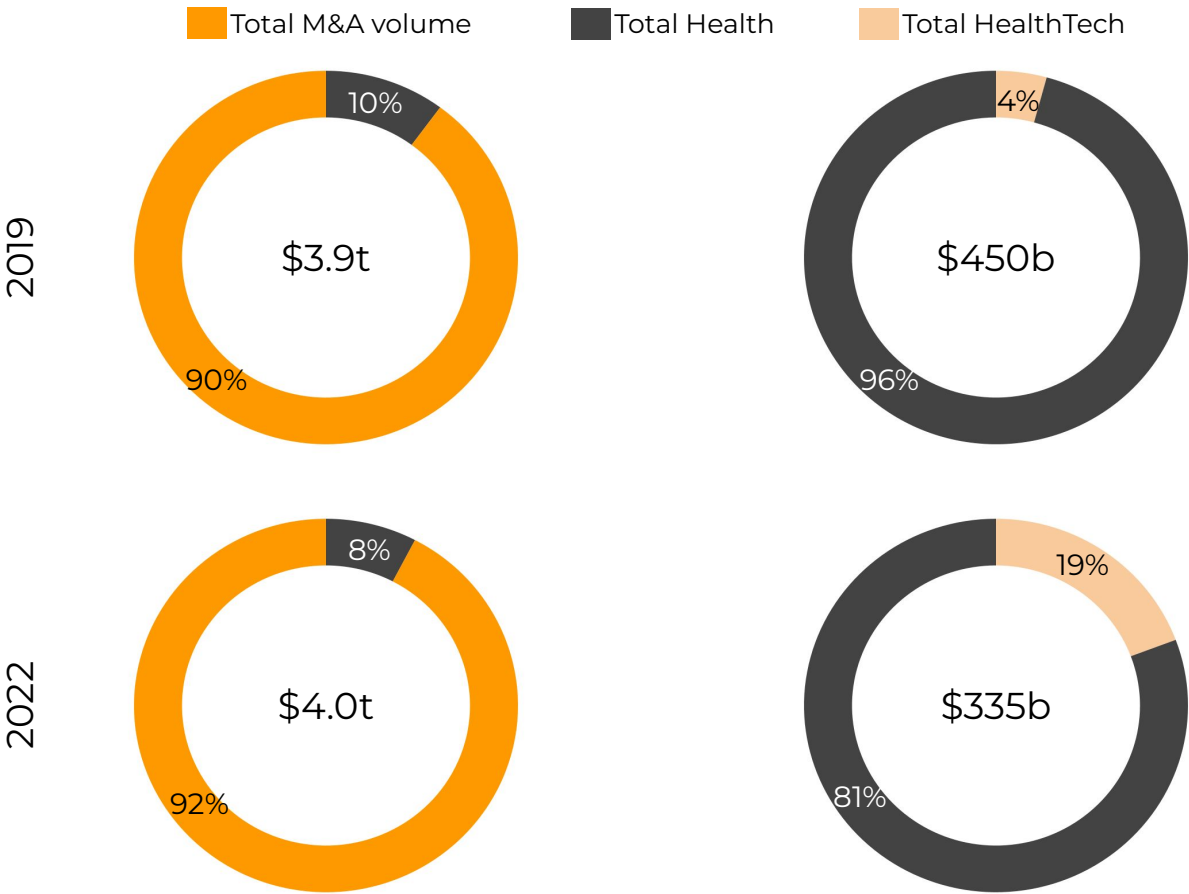
Strategic M&A & IPOs value was hit hard by the economic downturn

Recovery

The first signs of recovery/catchup effects are visible in Q3'22

HealthTech M&A is a significant component of overall Healthcare M&A

Share of total M&A volume - by value



The absolute healthtech M&A volume grew to \$80b

...with Cerner and Athenahealth account for \$40b

The share of European M&A is stable around 21% of the total volume

5. Summary



The Healthcare landscape is evolving faster than ever, as post pandemic the need for digital innovation has clearly been recognised. European HealthTech will see a new dawn as providers become more open to using software to make their services more efficient

The Healthcare landscape is changing faster than ever, as post pandemic the need for an influx of digital innovation has clearly been recognised. European HealthTech will see a new dawn as providers become more open to using software to make their services more efficient

- **The HealthTech Entrepreneur is first generation**, with many of the most valuable European HealthTech businesses started by people with minimal background in Health with unicorn alumni having collectively raised €40M
- **HealthTech Funding** increased in during COVID (2020/1) driven by Telemedicine/Wellness platforms and Drug Discovery but has fallen by ~50% in 2022 (YTD) as the market consolidates
- Unlike most verticals, **HealthTech is not driven by mega deals**, with the top 10 deals accounting for 28% of total deal volume in 2022;
- **Talent rush in telemedicine is over**, but companies in software and biotechnology/drug discovery remain active in the market with 10% of total FTE roles still outstanding
- **HealthTech M&A is becoming more evident within HealthCare** it now accounts for 19% of total M&A

European HealthTech funding will transition from telemedicine to strategic roadmaps of insurers and other healthcare IT providers and funding will bounce back in 2023:

- *Considering 2021 an outlier, healthtech funding has been growing since 2015 (+38% in 2022/2020)*
- *Strategic value in assets will continue to drive valuations in HealthTech with +20 m&a deals per quarter*
- *M&A starts becoming more focused on HealthTech vs. Healthcare particularly in PE industry*

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