Backing British healthcare entrepreneurs in a downturn

Investors naturally become more risk-averse in challenging economic times, but we believe the healthcare sector offers both resilience and opportunity. Innovative, well-managed healthcare businesses will continue to attract plenty of attention, even if macro headwinds drive an economic recession.

Temps de lecture : minute

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Health, after all, is typically a price inelastic industry. Most healthcare spending is not discretionary – people need medical assistance when they need it, rather than when they choose to buy. In frontline care, chronic conditions do not disappear when the economic winds change direction. In the life sciences sector, the pressure to develop new drugs and treatments is a constant – and the pharmaceutical industry’s well-known patent cliff means timescales are non-negotiable.

Equally, none of the socio-economic pressures driving increasing investment in healthcare are cyclical. The ageing populations of the West – and the corresponding prevalence of co-morbidities – demand ever more resources. Public sector healthcare systems are struggling to cope, particularly as tax revenues come under pressure. Indeed, the current economic difficulties and increased pressure on public healthcare spending demand innovation and invention.

Healthcare shines in all weathers

For these reasons, healthcare has proven to be a consistently bright spot when the macro backdrop turns gloomy. Analysis from the consultant Bain & Company shows that following the 2000-01 dot com downturn, returns for healthcare deals that closed in the next two years averaged more than 30%. And after the global financial crisis of 2008-09, healthcare deals rebounded quickly. Deals completed in 2009-10 delivered stronger median returns than those that closed in the year prior to the financial crisis. Indeed, among the healthcare transactions in the first two years following that, the top quartile earned internal rates of return of 40% or more.

Against that backdrop, the healthcare sector continues to see good levels of deal activity despite the wider economic travails. Gresham House's healthcare holdings are no exception as demonstrated with recent investments such as Mable Therapy, as well as recent exits.

Last year, for example, *Gresham House* exited Ideagen via its sale to Hg Capital. Ideagen, a fast-paced technology company that helps healthcare organisations (and those in other sectors) to manage their compliance and regulatory responsibilities, sold for a unicorn valuation of £1.1B, generating a return of 13.5 times at the time of exit.

More recently, Gresham House portfolio company Medica, a specialist tele-radiologist service provider, *was sold to IK Partners*. The private equity group's £269M offer for the company valued it at a 32% premium to its closing price before the offer.

Indeed, broadly, the *healthcare and pharmaceuticals industry has seen a surge in M&A activity globally* over the course of 2023. The life sciences sector alone saw transactions totalling *more* than $85B during the first five months of the year.

These elevated levels of investment suggest that the traditional defensive qualities of healthcare businesses are just as sought after in this period of economic turmoil as in previous downturns. But there is also something a little different about today's market landscape that is underpinning demand: in the crisis of 2008-09, liquidity was in short supply whereas today the opposite is true.

New data from S&P Global underlines the point. Globally, private equity firm's dry powder has reached a record $2.49T. At a domestic level, the fundraising success of VCTs also provides liquidity – Gresham House's Baronsmead and Mobeus VCTs have raised £125.9M in the last twelve months, for example.

Attention healthcare entrepreneurs

All of this is good news for growing healthcare companies and entrepreneurs in the sector – funding continues to be available, even as investors become more cautious.

However, this is not to suggest raising money in the sector is a sure thing. Investors have become more discerning. Fundraising processes are taking longer; due diligence is more exacting.

The best companies continue to attract generous valuations, but pricing is under scrutiny.

That requires business owners and management teams to be prepared. Investors are looking for evidence-based business cases that set out a clear path to return on investment. They expect businesses to be run efficiently, with a runway to revenue generation and profitability that balances the drive for growth with an emphasis on cost-effectiveness. They want to understand how businesses will achieve specific outcomes and impacts.

Discipline, in other words, is vital. Nevertheless, the best healthcare companies will secure the investment they need. That includes businesses that provide crucial support to the sector including services and technology tools creating staffing or cost efficiencies, as well as those that support the drug development cycle.

Moreover, the best investors offer more than just funding. They provide expertise, experience and contacts that can help healthcare businesses achieve their ambitions – both in the current volatility and over the longer term. The opportunity is to capitalise on today's resilience to drive continued success.

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