The Medtech sector in Germany offers a lot of opportunities

Medtech in Europe

In Europe around 7.5% of the total healthcare expenditure is spent on medical technology. The largest segment within medical technology is in vitro diagnostics with global sales of $47.4 billion followed by cardiology ($39.9 billion), diagnostic imaging ($35.5 billion), and orthopedics ($33.8 billion). Across Europe, there are roughly 25,000 medical technology companies employing more than 575,000 people. The European industry is dominated by small and medium-sized companies or SME (almost 95% of medtech companies).

Europe is the second largest market, with 30% of worldwide expenditure or about €100 billion per year. The biggest single market in Europe is Germany with sales of about $26.8 billion per year. Even though many hospitals are running deficits, the demand for medical equipment is comparable stable.

While medical technology companies can be found all over Europe, several regional industrial clusters have emerged. The companies in those clusters benefit not only from the opportunities of joint research and the proximity of experts in many medical areas, but often also from collaboration in areas, such as lobbying and purchasing of components.

One of the biggest clusters in Europe is located around the small town Tuttlingen in the Southwest of Germany. With more than 400 medtech companies employing over 13,000 people, the region claims to be “World Centre of Medical Technology.” Centered around surgical instrument manufacturer Aesculap and the endoscopy maker Karl Storz, more than 90% of the companies in the cluster are SME.

Medtech in Germany

The Healthcare market in Germany is worth approximately 315 billion Euros, and contributes to 11.3% of the GDP with a 3% p.a. growth rate. Additionally, Germany spends 28 billion Euros on medical technology in order to supply this growing demand that is driven by ageing population, rising incidence of chronic diseases and more demand for preventive and outpatient care.

Medical Devices is one of the most important segments of this market, gathering more than 44% of market share. The main core of the German production of Medical technology is exported (aprox. 16 euros bn p.a.) and because of this situation, companies have to import aprox. 10 bn euros p.a. products from Europe and North America to satisfy their demand.

The industry is comprised of more than 12,600 companies and almost 90% of them are small companies with less than 20 employees (SME). X-Ray apparats is the most important sector (30%), followed by Devices for Dental (17%), Prostheses and artificial implants (10%) and Endoscopes and surgical instruments (8%).
German medical technology companies are highly innovative, giving them a very important competitive advantage in a highly competing industry. On average companies spend 9% (2.8 bn euros) of its revenue in R&D, and 15% of their employees work for this departments. Most of their products have less than 3 years in the market and there is also a close cooperation between R&D institutes and medtech companies.

Important technology trends are changing how healthcare works. Hyper connectivity, Super Computing and Cloud Computing derives in a growing demand for digital healthcare solutions in Germany. According to estimations, the German mHealth market will grow to around 3 billion euro in 2017 (CAGR aprox. 22%), making this segment one of the most interesting fields in order to invest in the future for companies in the Industry. The most popular mHealth apps are related to nutrition and workout nowadays.

As we know, medtech industry is under constant technological development and everyday new trends are introduced to the market. Nowadays one of the major trends that are driven the market are: applications for 3D printing technology, personalized medicine, digitalization of healthcare and new robotic systems for surgery process.

**Medtech and Private Equity**

Organic growth turns out to be more challenging for companies in this industry, spurring many firms to inorganic methods to fuel meaningful topline improvements. Today’s environment with wide availability of inexpensive debt and strong equity values made M&A an attractive option. Another driver for M&A activity is the determination of companies to gain access to emerging technologies, also many IT and consumer goods companies are entering the medical device market, therefore IT companies will seek to cooperate with more experienced firms to market their ideas.

Corporate buyers have been active across all healthcare deal sizes, not just in megadeals too large for PE funds. In particular, corporate buyers have been active in the $500 million to $5 billion size range. Over the past decade, the share of deals in this range won by PE funds has fallen from about 20% to about 10%. Corporate buyers will likely remain active in the PE sweet spot, and while their presence will continue to pose challenges to winning certain deals, they will also continue to be an important exit channel.

Moreover, PE funds have many opportunities to partner with corporate buyers to facilitate transactions, bringing complementary skills to their targets. PE funds will also find plenty of areas that do not attract much corporate interest to hunt for deals, such as complex carveouts, segments like outsourced services where there may not be a logical original equipment manufacturer (OEM) owner and subscale assets that need pre-consolidation to be attractive to corporate buyers.

The most popular sectors for investors in Europe turned out to be providers, biopharma and related services. The European provider landscape remains fragmented, although the degree of consolidation varies by segment. PE investors continued to focus their energies on fragmented segments in which they could deploy buy-and-build strategies, building scale to improve operational
efficiencies and consolidating assets to sufficient size to attract corporate interest. In fact, several acquisition vehicles were overcapitalized to support future add-ons.

Investors continued their enthusiasm for deal making in the medtech sector in 2015, with Biopharma, which was one of the sectors that has shown an important development. It is the most active sector among Private Equity deals in Germany and Europe. Corporate M&A activity in the medtech sector was robust, especially in product segments. In this segment, corporate buyers won many product assets, but on the bright side for PE investors, these corporate investors also serve as a source of assets as well as buyers at exit.

Category leadership strategies fueled much of the M&A activity in the sector for both corporate and PE buyers. With corporate buyers positioned to win many of the leading assets in product categories, PE funds made category leadership plays in other ways: buying category leaders in services segments that often don’t make sense for corporate OEMs to own, such as outsourced services; carving out mature product assets (for example, in diabetes diagnostics) from corporate OEMs that need to focus on building or maintaining category leadership positions elsewhere; and using buy-and-build efforts to assemble category-leading assets.

**Changes in the regulatory landscape**

Notified bodies are independent institutions accredited by national authorities of EU member states that evaluate technical documentation and quality systems of manufactures and test if the new devices operate as expected. The EU institutions and the member states are currently working on a new legislation, the main objective is to improve the quality of the work of notified bodies and the security of medical devices. Also, notified bodies are required to conduct unpredictable audits at the manufacturer’s, critical subcontractor’s or component supplier’s manufacturing sites.

**Future Trends**

The medical technology industry is undergoing a period of fundamental change. On the one hand there are changing demographics in most parts of the world and the increasing prevalence of chronic diseases driving the demand for high-quality medical devices, diagnostic and imaging equipment, and innovative eHealth solutions. On the other hand, healthcare expenditure is increasingly curbed by strained public budgets and austerity measures.

The rapidly changing market environment is partly responsible for the wave of mergers and acquisitions across the medical device industry. Size increasingly matters in the medical device industry, as companies seek to increase their scale in order to counter the greater bargaining power of purchasing groups. Additionally, they hope that sizes help them benefit from synergy effects and allow them to concentrate on their strategic core business and sell peripheral units.

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