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News release

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Long-term global medtech growth under threat from tech competitors, underinvestment in digital capabilities

- **Industry revenue rises just 4% to US$379 billion in 2017-2018 while investment in R&D activities is relatively unchanged year over year**
- **M&A capabilities of 10 technology and retail disruptors outpaces entire medtech industry**

NEW YORK, 24 SEPTEMBER 2018. The global medical technology (medtech) industry's long-term growth outlook is at risk due to underinvestment in digital capabilities, competition from technology companies, and the growing need to demonstrate better outcomes. This is according to *Pulse of the industry,* the 2018 EY medical technology industry report.

Even though aggregate revenue for the industry in 2017 hit a new record, propelled by bolt-on deals and portfolio optimization strategies, revenue growth increased just 4% to US$379 billion. This result, the 10th consecutive year for single digit revenue growth performance, is in sharp contrast to the 15% average annual growth rate achieved from 2000 to 2007.

Taken together with the industry's declining rate of investment in research and development (R&D), the report finds that medtech companies, particularly the industry's commercial leaders, are overly focused on short-term growth at the expense of R&D and longer term growth needs. In 2017, medtech companies returned US$16.4 billion to investors in buybacks and dividends, more than the US$15.9 billion invested in R&D activities.

Pamela Spence, EY Global Life Sciences Industry Leader, says:

"Medtechs continue to use conventional strategies, such as buybacks and tuck-in acquisitions, to create scale in must-win therapeutic areas to grow. However, as the shift of power from providers and payers to patients and consumers continues, this business-as-usual approach no longer works. Medtechs must invest in new data and customer-centric capabilities to build stronger ties with consumers or risk being ousted by technology companies and other entrants from outside the sector. To succeed in the digital future, medtechs will be judged not only on the safety and efficacy of their devices and tests, but on their ability to capture and deploy insights from these products to inform care delivery, with a growing emphasis on coordinated care."

The report notes that technology companies, which have the expertise in data analytics, customer engagement and service personalization required to deliver more satisfying customer experiences, are increasingly investing in new health offerings. These include data-rich platforms that make it easy to share data proactively with consumers and providers to avoid adverse health events and optimize individual care management. What's more, technology and retail companies have the ability to significantly disrupt the industry through acquisitions or partnerships. A group of 10 disruptors, some of which have already entered the medical device or health market, possess nearly double the dealmaking firepower of the entire US and European medtech industry (US$1.9 trillion versus US$990 billion).

Jim Welch, Life Sciences Advisory Partner, Ernst & Young LLP, says:

"Medtechs have a unique opportunity to capitalize on digital transformation. As many devices are increasingly connected, they have a built-in advantage. They also have strong connections with other health care ecosystem stakeholders and are aligned with their objectives, so they are well-placed to develop new business models and their value in the future. What they don't have is in-house capabilities to develop personalized health care offerings. To change this, medtechs need to continue to be efficient with their capital, and prioritize shedding non-core assets. They must also invest more in digital collaborations that expand their customer experience and data and analytics capabilities so that they can get even closer to patients."

Select medtech companies are beginning to make investments in digital technologies and services that create connected devices to better manage diabetes and heart disease. However, outside these two therapeutic areas, digital dealmaking was muted in 2017-2018. US premarket approval trends bolster the notion that medtechs have yet to fully embrace new digital capabilities: of the 43 premarket approval applications (PMAs) accepted by the U.S. Food & Drug Administration (FDA) since the beginning of 2017, only 16 include any digital health component.

Instead of advancing their digital capabilities, medtechs in 2017-18 focused on building scale via bolt-on transactions valued between US$1billion and US$10 billion in must-win therapeutic areas. After several years of transformative M&A, there were no megadeals, defined as transactions valued at greater than US$10 billion, in the 12 months that ended 30 June 2018. In addition, compared with 2016-17, the total value of M&A fell 56% to $US44 billion, while the total number of deals declined 42% to 101.

Other key results highlighted in the report include:

Strong venture climate, non-imaging diagnostics boost financing: At US$37 billion, total medtech financing was the third largest since EY began publishing its results in 2006. Innovation capital, funds raised by companies with less than US$500 million in sales, reached an all-time high of US$22 billion as the strong climate for both public and private capital continued. In 2017-18, early-stage medtech companies, for instance, raised US$3.3 billion from venture investors, a positive sign for the long-term health of the industry.

IPO climate on fire: US and European medtech companies raised US$9.1 billion in IPO capital since July 2016, an amount that exceeds the IPO total for the prior 10 years combined. There were also 28 IPOs in 2017-18, including the largest medtech IPO ever, valued at US$5.2 billion for a company that uses artificial intelligence and big data in its imaging and diagnostic products.

Industry market cap outperforms: The medtech industry outperformed all the broader industries. Performance was led by non-commercial leaders, who were up 92% from January 2017 until 30 June 2018. During that same period, the valuations for non-imaging diagnostics companies were up 82%.

About the report
The key findings from *Pulse of the industry,* the 12th edition, are based on an EY analysis of companies headquartered within the US or Europe whose main business purpose is the commercialization of medical technology. For the purposes of this report, we have placed Israel's data and analysis within the European market and global data represent combined metrics from US and European medtechs. EY defines medtechs as therapeutic

device, diagnostic, drug delivery and analytical/life sciences tool companies. This definition excludes distributors and service providers, such as contract research organizations or contract manufacturing organizations.

How EY's Global Life Sciences Sector can help your business
As populations age and chronic diseases become commonplace, health care will take an ever larger share of GDP. Scientific progress, augmented intelligence and a more empowered patient are driving changes in the delivery of health care to a personalized experience that demands health outcomes as the core metric. This is causing a power shift among traditional stakeholder groups, with new entrants (often not driven by profit) disrupting incumbents. Innovation, productivity and access to patients remain the industry's biggest challenges. These trends challenge the capital strategy of every link in the life sciences value chain, from R&D and product supply to product launch and patient-centric operating models.

Our Global Life Sciences Sector brings together a worldwide network of 15,000 sector-focused professionals to anticipate trends, identify their implications and help our clients create competitive advantage. We can help you navigate your way forward and achieve sustainable success in the new health-outcomes-driven ecosystem.

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