

Could Private Capital Help Withstand the New Swiss Medical Devices Regulation?

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The implementation of new Medical Devices Regulation and the more stringent requirements it will impose are expected to be most challenging for the small- and medium-size enterprises that, to date, have made up a large part of the medical devices and technology industry in Switzerland. In light of the increased compliance costs, some medical devices and technology companies will need to assess how best to remain competitive and ensure that their business can flourish. Increasing the scale of a business through transactions is one option as it will spread the costs of a new compliance framework. Small- and medium-size enterprises could therefore consider acquiring similar products or merging with companies conducting similar businesses and, in doing so, may also consider seeking external funding for expansion.

Our analysis of deal statistics and discussion with private equity sponsors suggest they are a meaningful source of external financing for medical devices and technology companies. We have analyzed deal statistics that show a steady involvement of financial sponsors in more than half of all European life science and healthcare deals in the past five years. More specifically, the proportion of those deals in the medical technology and devices segments has been consistently around 13 percent. This shows that at least some private equity houses are aware of the opportunities in medical devices and technology businesses.

At the same time, private equity firms face ever-increasing competition for the finite number of assets susceptible to purchase using a standard leveraged buyout model. As a result, the amount of committed funds available to private equity sponsors for investment has increased. McKinsey's 2018 private markets annual review estimated that the aggregate level of "dry powder" stood at US\$1.8 trillion. Private equity firms are proactively diversifying their types of transaction and will now consider minority investments as well as investments focused on "growth" opportunities — more like "venture capital" transactions.

The statistics show that medical devices and technology are of interest to private equity firms. Life science businesses as a whole are seen as less susceptible to the economic cycle and demographic trends of ageing populations, and increased awareness of well-being and health issues support expectations of increasing demand in the area. Medical devices and medical technology specifically are viewed as less risky investments than other life science segments such as the development of new pharmaceutical products.

Consolidation may provide small- and medium-size enterprises operating in medical devices and technology with potential synergies. Simply obtaining external financing from a private equity sponsor may not provide the same benefit, but there are several advantages that may not be available from merging with competitors. Founders and existing owners may be able



to retain greater control over their own business by offering a minority stake to a private equity sponsor. An investee company may also benefit from the sector expertise and networks that private equity firms and their operational partners have developed. In addition, private equity sponsors will usually be interested in follow-on investments of other related businesses — potentially providing the best of both worlds.

Medical devices and technology companies can maximise their chances of success by considering the strategic options available to them and preparing for such transactions. We will be discussing this in more detail at our seminar in Bern on October 30, 2019.