Bellevue
Excellence in Specialty Investments

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Digital Health 2022: Historically low valuations as an opportunity for investors

Currently, the Digital Health sector is valued significantly lower than at the beginning of 2021. The historically low valuation is not only attractive for investors, but also an interesting base for takeovers.

From Stefan Blum, Portfolio Manager Bellevue Digital Health Fund

2021 was generally a very challenging year for small and mid-sized growth stocks. This is reflected in the significantly better performance of large-cap healthcare companies as tracked by the Russell 1000 Healthcare Index (+23.3%) compared to the performance of the Russell 2000 Healthcare Index (-17.6%), which focuses on small and mid-cap companies. The EV/Sales multiple of the Bellevue Digital Health fund portfolio is currently under the long-term range of 6-10x, and about 40% lower than it was 12 month ago. Due to the historically low rating, 2022 presents itself with enormous growth potential.

The indications for the new year are good. We assume that large healthcare companies are eyeing deals with disruptive, fast-growing digital health companies. An example was seen in early 2022 when Stryker issued a takeover bid for Vocera, a leading provider of communication software and hardware for hospitals. In December, Oracle, a sector outsider, issued a USD 29 bn takeover bid for Cerner, one of the two major providers of hospital software in the US. Also, J.P. Morgan Healthcare Conference was very positive with some companies already giving pro-active guidance of their results after being challenged by investors worried over Covid-impact. Inspire Medical's sales expectation for 2021 is around USD 233 mn at a gross margin of 85-86%, impressive numbers compared to 2020.

Many Digital Health companies are now at a much more advanced stage of business maturity, their business models have been firmly established, and their path to profitability has gained visibility. Even companies where investors generally want to see more proof that their strategies work, show very good return potential, and levels of risk that are tolerable in view of their significant corrections and the investment community's modest expectations.

All things considered, we believe the outlook for the 2022 investment year is extremely attractive. Some macro factors such as rising input costs, supply chain challenges and labor shortages might even have a positive impact on the course of business at digital health companies in view of their efficiency-enhancing solutions.

We don't rule out short-term market fluctuations, especially in reaction to news about the vaccination rates and the effectiveness of vaccines against coronavirus variants, or as a result of short-term tactical shifts in the flow of investment capital (sector rotation). However, we believe that a highly selective portfolio of fast-growing, transformative and disruptive companies offering digital technologies that improve healthcare services and systems while lowering costs can quickly bounce back from short-term stock market trends.

The increased acceptance of digital solutions in the wake of the pandemic has pushed up the potential growth trajectory of the Digital Health investment case. We also expect M&A activity to pick up significantly. Equity capital investors have already invested about USD 84 bn in 3 800 privately held digital health firms since 2011, so we expect a steady stream of attractive IPOs in the coming years. Strong growth momentum and non-cyclical demand put Digital Health stocks in an excellent position to deliver a pleasing performance in 2022.

An overview of Bellevue Healthcare Strategies

Bellevue Healthcare Strategy
Bellevue Sustainable Healthcare
Bellevue Biotech
Bellevue Medtech & Services
Bellevue Digital Health
Bellevue Asia Pacific Healthcare
Bellevue Emerging Markets Healthcare

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Bellevue – Excellence in Specialty Investments

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