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Healthcare AI Deals a Tonic for Private Equity Investors

By Latham & Watkins LLP on September 21, 2020

Posted in M&A and Private Equity

Healthcare artificial intelligence is a promising sector for PE investors that requires careful navigation, particularly given divergent regulatory approaches.

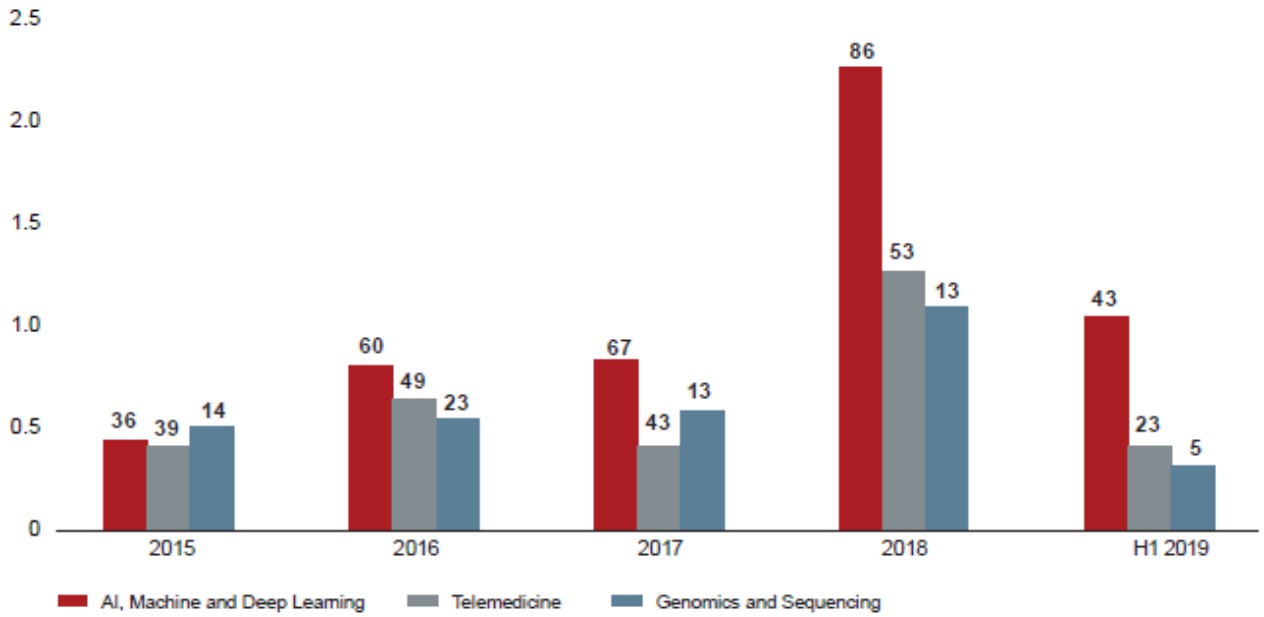
By [Jon Fox](#), [Frances Stocks Allen](#), [Catherine Campbell](#), [Tom Evans](#), and [David Walker](#)

PE funds invested more than US\$14 billion in healthcare (including pharma) in 2019, up from US\$3.5 billion in 2013, and interest is likely to grow further, given the global impact of COVID-19. In our view, the application of artificial intelligence (AI) to healthcare and pharma is of increasing importance, and is likely to bring new deal opportunities for PE investors.

No longer an emergent technology, AI is now used to drive value and efficiency, including precision diagnosis, smart devices, clinical decision support, care orchestration, administration telehealth, and lifestyle improvements — and has also been shown to be capable of significantly reducing the time and cost of drug discovery and development. In January 2020, UK-based Exscientia, which recently raised US\$60 million in a Series C financing round, announced that it had, in partnership with Sumitomo Dainippon Pharma, developed a compound for OCD via their AI platform in just 12 months (compared to the usual 4.5 years).

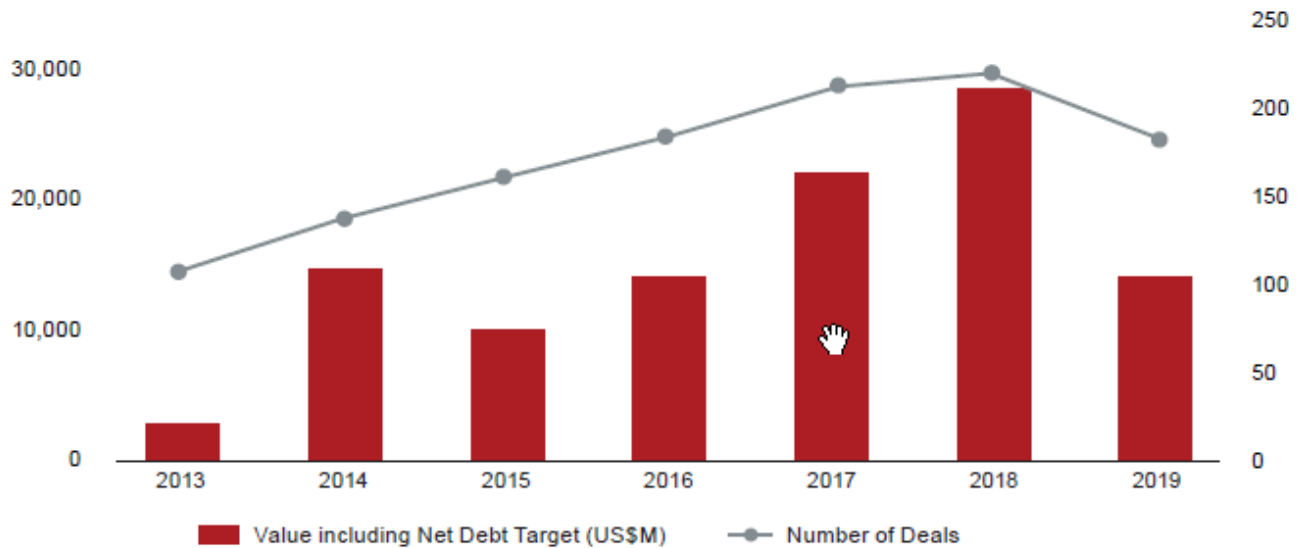


Where the Money Is Going in Healthtech — Deal Volumes and Values (US\$B)



Source: Rock Health / Financial Times

Healthcare Buyouts 2013 to 2019



Source: Thompson

Despite this, given the importance of health data to this market and the divergent approaches taken to AI regulation PE investors face challenges that will require careful navigation.

Health Data Needs Special Care

Healthcare sector participants and governments are already seeking to monetise healthcare data generated via medical health records, test results, diagnostics, and wearables. For example, in March 2020, Israel announced an investment of US\$280 million to digitise and make available population health data, to drive the development of medtech and personalised medicine in Israel.

Health data is, however, subject to enhanced regulation under privacy laws (for example, the GDPR and in the US, the Health Insurance Portability and Accountability Act) and regulatory confidentiality obligations. As AI development continues, we anticipate that the companies best able to demonstrate that they are deserving of patient trust in data use will lead the way, and present more attractive acquisition targets for PE investors. When assessing AI targets or looking to capitalise on data sets of healthcare industry participants, confirming that data use is permitted by law and verifying implementation of data subjects' rights and safeguards will be key.

Unclear Regulatory Picture Stalling Growth Potential?

Regulators are still getting to grips with how to regulate AI. A European Commission white paper on AI in early 2020 indicated that high-risk AI applications (including some in the healthcare sector) are likely to be subject to advanced regulation in the EU, however, it is not yet clear what the EU's regime will ultimately look like.

Many of the healthcare settings in which AI tools have been deployed (such as diagnostics, therapeutics, healthcare products, and tools for clinical trials) are already heavily regulated, with healthcare industry participants used to adopting a pro-regulatory, risk-averse approach. This healthcare industry culture may be slowing the adoption of more risky forms of AI innovation as industry participants adopt a "wait and see" approach to future regulatory developments. This indicates that recent growth in the sector may not reflect its full potential, and we expect growth to accelerate once a clearer picture emerges of how AI will be regulated.

Accordingly, PE firms must follow developments in AI regulation closely to monitor future opportunities and challenges.

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