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\$4.2bn Babylon to go public at 11-13x revenue multiple



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Global digital health platform Babylon Health will IPO through a \$4.2bn merger with SPAC Alkuri Acquisition Corp. The deal gives it a 13x revenue multiple of the \$4.2bn equity value and 11x a \$3.6bn enterprise value. The move comes as Europe's players increasingly look to the States as a more scalable market. Despite just launching there last year, 70% of Babylon's revenues now come from the States.

The merger



Babylon said on Thursday that it will merge with the blank cheque company to list on the Nasdaq under the ticker BBLN. The transaction reflects an equity value of \$4.2bn and an enterprise value of \$3.6bn and is expected to close in the second half of 2021. It will add up to \$575m of gross proceeds to Babylon's pro forma balance sheet including the \$345m that was raised by Alkuri in a February IPO.

Alkuri Global Acquisition Corp is based in Nashville, US, and is led by Richard Williams, former CEO of the e-commerce platform Groupon.

A blank check company, or a special purpose acquisition company (SPAC), is a publicly-traded shell company created with the intention to merge with a private company. The phenomenon went viral through the beginning of this year, accounting for half of all total IPO funding in the US in 2020 but the fever has started to wear off. The IPOX SPAC Index, which measures the performance of SPACs in the US, is down 22% since its April high.

Babylon is the first European healthcare services company to go public this way although competitors in America, [where the platform is making a big push](#), have set a precedent. Talkspace, an on-demand

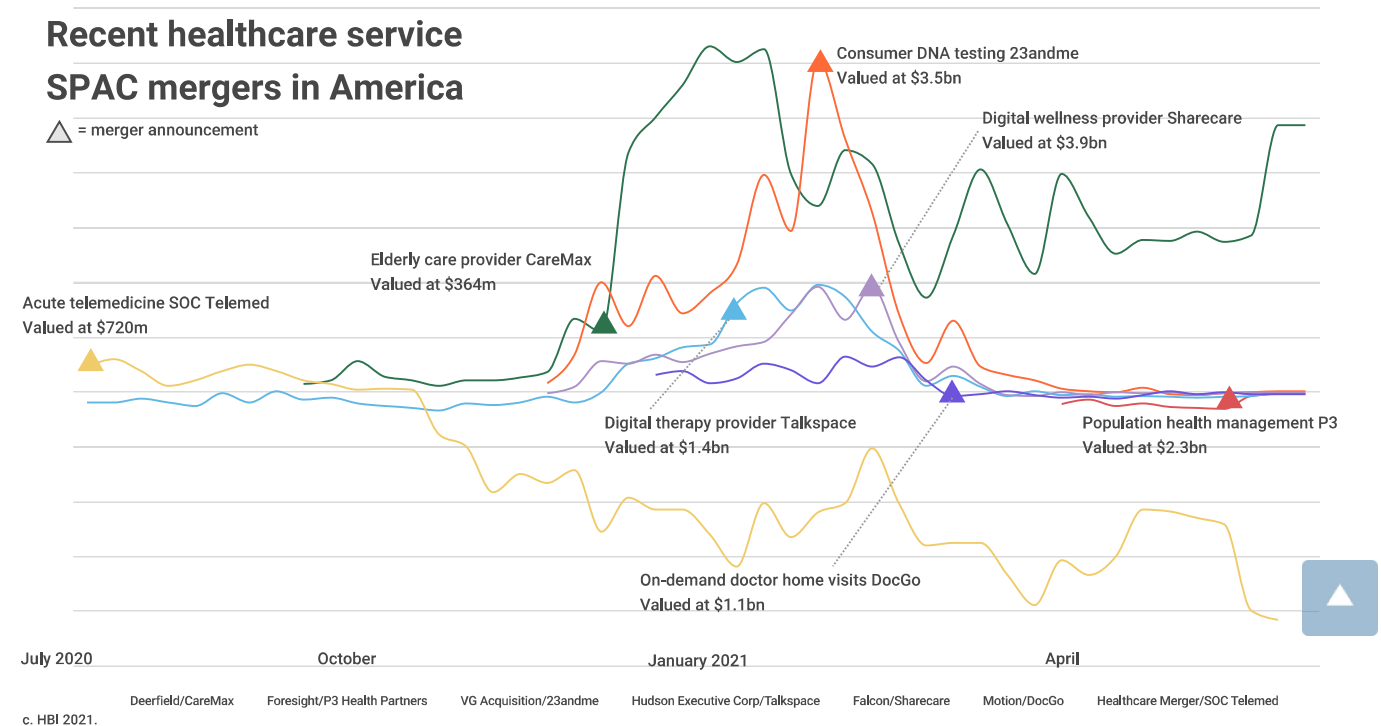
therapy provider, merged with Hudson Executive Investment Corp in January at a valuation of \$1.4bn and Sharecare, a wellness solution, merged with Falcon Capital Acquisition Corp a month later at a valuation of \$3.9bn.

The merger will value Babylon at \$4.2bn including \$575m in gross proceeds. A source close to the company [earlier told HBI](#) that it had 2020 revenues of around \$80m, around 5x growth, and Babylon says it expects to grow 4x this year. That gives it a 13x revenue multiple on the equity value and 11x on the enterprise value.

The SPAC was earlier named Ark Global Acquisition Corp. It is also sponsored by Sultan Almaadeed, a Qatari investor behind a platform making \$500m+ bets on disruptive tech, Steve Krenzer who worked as the CFO at Groupon, and Jonathan Huberman, who was CEO of software company Ooyala when it was acquired.

CEO Ali Parsa will continue as chairman and CEO of the new entity with Alkuri's representatives joining the board of directors. Existing Babylon shareholders will roll 100% of equity into the new company and will own approximately 84%.

It says over 85% of the cash was raised from new investors including big data software company Palantir. Babylon expects to have \$540m cash on its balance sheet following the transaction, which it will use to pursue organic and M&A growth opportunities.



Babylon's (and others) push to the States

The move comes as European digital healthcare companies increasingly try to conquer the States, sometimes reducing attention on home markets. This is caused by fragmented reimbursement and regulation alongside new waves of policy backlash. All of Babylon's recent strategic moves have been based on expanding in America where it claims to be the largest digital-first value-based care provider, treating nearly 100,000 Americans.

It says that the U.S. business alone, where it only launched in 2020, drives 70% of revenue. It counts Centene and FirstChoice Medical Group as strategic partners and acquired Meritage Medical Network, a network of 700 physicians in California. Its main product, Babylon 360, is a digital-first platform that helps patients monitor their health, provides insights and rewards them for better choices. This is a further step

away from its original telehealth model, providing on-demand teleconsultations to patients, towards integrated care and population health management.

In Europe, it has only really sold this solution to [a couple of NHS hospital trusts](#). Babylon claims to have a 95% user retention rate.

It also has a cloud services platform, which it describes as a suite of digital self-care tools for patients and clinicians to use. Combined it treats 24m patients in the US, Canada, Europe, African and 13 countries in Asia.

“Over the last several months, we’ve made significant strides in our mission to put accessible, affordable and high-quality healthcare in the hands of every person on Earth,” said Babylon CEO Ali Parsa earlier. “Nowhere is that happening faster than in the United States. Innovations in digital-first care are driving the entire industry forward.”


It’s not the only European digital health player looking to the States. Take Germany: the founder of Munich-based Kaia Health moved last year to build up a commercial and product team and Ada Health [said in its funding round last week](#) that its focus is now to build the product in the US. Polish start-up symptom checker Infermedia had sights on the US after an earlier Series A.

As a partner at a specialised digital health venture capital firm tells HBI: “We still form a thesis that Europe punches above its weight in terms of university graduates, in terms of quality of IP coming out of universities. What Europe lacks is a seamless healthcare system. Most European countries have a 5-15m population. You conquer Belgium, that’s the same population as New York City. Once you’ve done with Belgium you’re going to have to go to France and it’s a whole new set-up. What Europe suffers from is a lack of scale market.

“If you want to attract US venture capital to support your company, it’s very hard to do that without a US expansion plan.”

The state of digital health today

Increasingly, there’s no such thing as a pureplay telehealth company in Europe. Babylon has moved away from providing teleconsultations to more rounded health management and integrated care, other platforms like Doctolib and eConsult have built telehealth capabilities into triage. Even the largest pureplay provider Kry is now working on inbuilding cognitive-behavioural therapy into its platform.

“Telehealth is definitely not exciting for us as an investment,” says Joe Stringer, a partner with VC firm Octopus Ventures. “It’s commoditised so it’s already a race to the bottom.” This is backed up by the chief digital officer of Fresenius Helios, who earlier told HBI that it simply picked the cheapest telehealth  supplier for its doctors.

A big fanfare around telehealth did hit through the pandemic and it’s a mixed bag around what’s happened to the numbers of consultations coming out of the pandemic. The number of video consultations in the UK remains minuscule at 0.41% of all GP visits in March 2021. However, telephone consultations are at an all-time high taking a 40% share, with face-to-face being 56%.

The largest provider of telehealth in the US, Teladoc, is continuing to see growth in the number of visits. In the first quarter, it delivered 2,723k visits in the US and 467k internationally, up 68% and 8% respectively from Q1 2020 and up 8% and 6% from Q4 2020. Revenue is up 175% to \$416m in the US and up 29% to \$38m internationally on a like-for-like basis.

Although the market might not be convinced of its long-term utility with shares down 24% since the beginning of the year.

The company’s director of European sales Dominic Howard tells HBI: “I think it’s fair to say that the interest in telehealth and telemedicine is not going to go away as we come out of lockdown, rather like

home working. There will likely be other forms of lockdowns so there's no turning back and the demand will continue to be there

"I think that countries now recognise the value and importance of having some kind of infrastructure in place that means the population can get access to a broad range of virtual care services."

Opportunities for the larger suppliers are starting to present themselves at a country-wide level, particularly in developing markets. As one operator tells HBI: "I think we'll only really see a single supplier solution at a national level where poorer governments are trying to build-up primary care systems. Operators from a procurement perspective will happily work with one supplier but when you look at whole healthcare systems like the NHS it's more likely that it will approve a few solutions but not select just one. It's too controversial."

But we have seen clashes in the UK and Sweden where Babylon and Kry have been accused of distorting the payment per capita primary care model by recruiting younger healthier patients. Policymakers also worry that accessible telehealth models may lead to higher usage and there is also a danger that it will alter the gatekeeper model primary care has typically served.

We would welcome your thoughts on this story. Email your views to [Rachel Lewis](#) or call 0207 183 3779.



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