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HEALTHCARE BUSINESS INTERNATIONAL
Briefing

JANUARY 2020

# EXCLUSIVE Medipass auction starts next month as Althea sale collapses

**HBI hears the sale of managed equipment services (MES) provider Althea has been withdrawn for now by PE owner Permira. We look into why it stalled, and when the auction of rival Medipass is due to start.**

A source with knowledge of the company tells HBI the sale was pulled after the two final bidders, understood to be BC Partners and Cinven, both put in bids of around €600m each. Permira, we hear, was hoping for offers closer to €1bn.

EQT and Blackstone were in earlier rounds, HBI hears, while Goldman Sachs was given the sell-side mandate.

HBI understands that the valuation mismatch may in part be due to the 2019 adjusted EBITDA of €87m that Althea was being sold off. The unsuccessful bids reflect Permira's desire multiple, 11.5x, but only on the actual, not adjusted EBITDA, which is closer to €50m.

Our source also suggests that bidders may have been off by Althea's proposed aggressive expansion plans into remoter geographies, particularly an IMF-backed project in the Republic of the Congo capital Brazzaville. Permira is expected to continue the sale in 2020, perhaps once actual 2019 figures come through.

Permira was approached for comment and declined to.

Althea manages more than 1.4m medical devices in over 2,700 facilities in 17 countries and was formed in September 2017 by the merger of Asteral (UK & Ireland), MESA (UK, Ireland and Europe-wide), MVS (Poland), Spintech (Turkey), Sigil (France), TBS Group (UK & international), Higèa (Italy) and Ed Sloan & Associates (US).

Continues page 3

# First bids for dental chain expected before Christmas

**A fast-growing UK dental chain has started a sales process with first bids expected before Christmas, multiple sources tell HBI. A source with knowledge of the sale says the group is looking for minority investment for growth, but there is speculation that for the right price, a majority stake could be on the table too.**

Gensmile is a UK dental chain with 16 practices in 14 towns or cities, and two dental labs. Established in 2014, the business is well regarded by HBI sources and is the brainchild of Simon Turton, former head of European Healthcare investment team at (private equity investor) Warburg Pincus. A source close to the company tells us DC Advisory is the sale-side bank running the process, and first bids are expected this side of Christmas. PWC has been doing sell-side due diligence.

The group has grown quickly. Revenue in 2018 was £13m, up from £6.7m the previous year and £2.8m in 2016.

An operator source tells us: "The materials are out. The process is running. I was surprised the process started mid-November. I thought they might be trying to fast track it to get something done by Christmas. It's a nice asset, properly run, lean but not under-invested. At this stage, we hear it's a minority stake which is initially being sought. Could it sell a majority stake? Dental Care Group, which sold to G Square, was initially looking for a minority stake, but you don't get the same multiples if what you're selling doesn't give control of the asset. It gave in. It could be that something similar will happen here. I suspect Gensmile management may want to take some money off the table, potentially, and want to fund growth."

"And it's a different buyer who buys a minority stake and

Continues page 4

# Content



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# Medipass auction starts next month as Althea sale collapses - cont.

The Congo proposal would see Althea responsible for the maintenance and replacement of machines, alongside training and managing future technology management.

The first phase would be worth €225m over 10 years in small and medium hospitals and has been expected to launch in October 2019. A second phase, in around 50 larger hospitals, would be worth up to €700m.

An advisory source says that questions are being asked about the MES market. He says: "The danger has always been if principle suppliers start to compete, they could have a pricing advantage."

A source close to Medipass tells HBI its auction process is due to start at the end of January, adding to reports in September that owner KOS Group had mandated Mediobanca for the sale.

The process is being pegged to 2019 EBITDA of €20m. Althea's adjusted 2019 revenue of ~€490m makes it at least 10x larger than other players on the market. Medipass refutes allegations that it is exiting its MES sites and says that it is keeping focus on the sector.

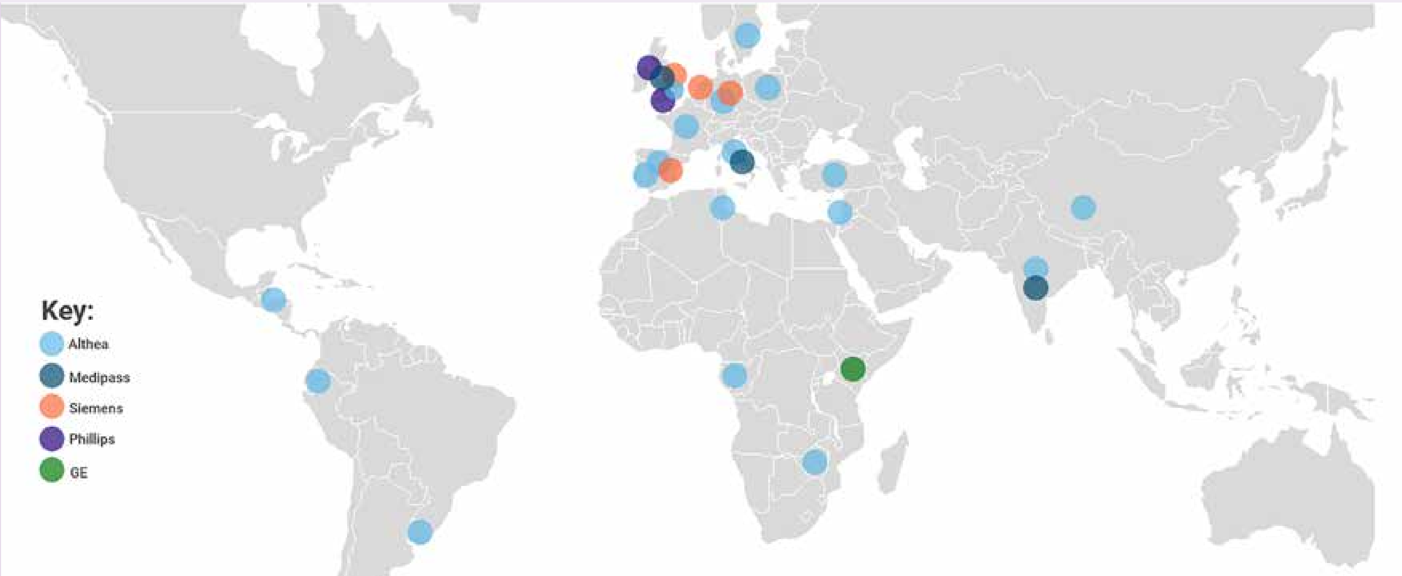
Medipass has MES services in Italy, the UK and India. The former two markets have seen difficult conditions for MES and as a result, it's moving towards becoming an independent cancer care provider in India.

That subsidiary, ClearMedi, saw a revenue increase of over 50% to €14m in 2018.

HBI has also contacted Goldman Sachs and Althea for comment.

**"The danger has always been if principle suppliers start to compete, they could have a pricing advantage."**

**LOOKING AT WHERE ALTHEA, MEDIPASS AND THE OEMs HAVE MES CONTACTS**




**Please visit our website for the interactive version of this infographic**

Sources: Company websites. Picture is illustrative, not exhaustive. US, Canada and Australia excluded. © HBI, 2019

# First bids for dental chain expected before Christmas - cont.

not a majority one. The likes of BUPA wouldn't buy for a minority, same for Colosseum. Groups like that would be looking for majority control. I'd say – even though I think it has practices too close to the coast for my liking – it will go for a low double-digit multiple."

Our source adds that DC Advisory is a good match for Gensmile: "It worked for Core Equity when it bought Portman in 2018. For an asset of this size you don't need a Morgan Stanley or a Goldman Sachs – sometimes it's better to go for something smaller." DC Advisory was also involved in the sales of Oasis and Southern Dental.

A second source describes the sale as "a fairly closed process".

A third source with knowledge of the sale tells us: "The business is raising capital for growth. Pro forma EBITDA is around £6m, and the market might expect a mid-teen multiple of around 13-14x that.

"Some of the silent shareholders will be selling down, but management will be reinvesting, and looking for a good high-quality sponsor to help grow the business."

**OUR ANALYSIS:** HBI's sources all say this is a good asset worth buying – or buying into – for the right price, and Simon Turton enjoys a good reputation. For a minority investor, it's possible the likes of Livingbridge, who were the minority investor in Portman, might be tempted to give it another go given its good experience in dentistry. We suspect buyers may be looking to pay a lowish double-digit EBITDA multiple here especially for a minority share. No doubt the sellers would prefer closer to 13-14x, which might be justified by looking at revenue growth and depending on what's in the pipeline. Certainly – as with Dental Partners – a 14x multiple would be realistic for a sale of a majority stake.

As we write elsewhere, dentistry is at a tipping point for PE consolidators and it is possible that shortly, the natural successors to smaller practices may find themselves priced out of the market and unable to compete with PE.

**GENSMILE**
LOCATIONS AND REVENUE


**Please visit our website for the interactive version of these images**

# HBI Pipeline update

## HBI Pipeline now shows Top 20 private groups plus other trade deals

**For over 260 EMEA health care service groups, you can now see how likely they are to sell with the HBI Pipeline.**

We've now extended this to cover not just all private equity-owned healthcare groups in Europe, but also the Top 20 privately held groups by revenue AND a host of other deals.

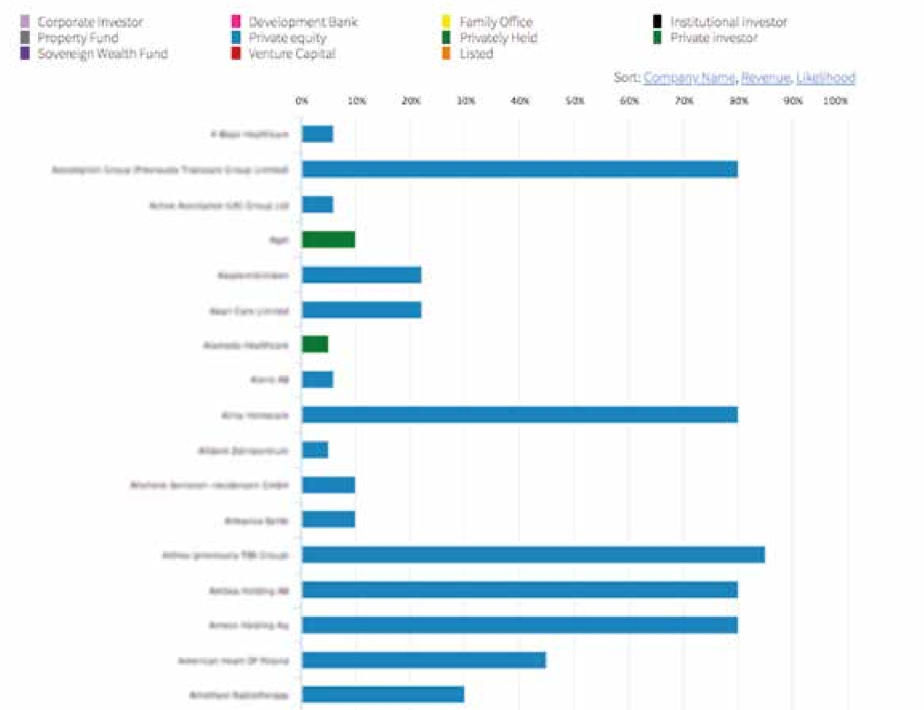
The Pipeline gives you our calculated likelihood of a sale in the next 12 months. If you are an investor or a consolidator the HBI Pipeline, available as part of our HBI Intelligence and Connect membership, will be a vital management tool.

If you have this membership level you can access it direct from the HBI website. If you have HBI Headline or HBI Deals & Insights membership, call or email to organise a demo.

We are now using a variety of colours to differentiate between different investor types as we broaden the pipeline's scope.

Now you will see some orange, which is publicly listed, plus some green companies, which means that they are privately owned.

**ESTIMATED LIKELIHOOD OF A SALE IN THE NEXT 12 MONTHS**




**Please contact the team to see the unblurred version of this table and data**

© HBI, 2019

Soon we will be rolling out the Pipeline to all privately owned and listed companies, plus strategic investors, development banks, family offices, infrastructure funds, sovereign wealth funds and venture capital.

KEY INFOGRAPHIC 1

# How Sweden's teleradiology market is formalising

**As the European teleradiology sector moves from informal partnerships to public competitive tenders, we visualise Sweden's which hint at the size of the country's overall teleradiology market.**

As teleradiology booms in Europe because of a radiologist shortage, an explosion in imaging volumes and advances in imaging IT infrastructure, so the need to formalise the sector has arisen.

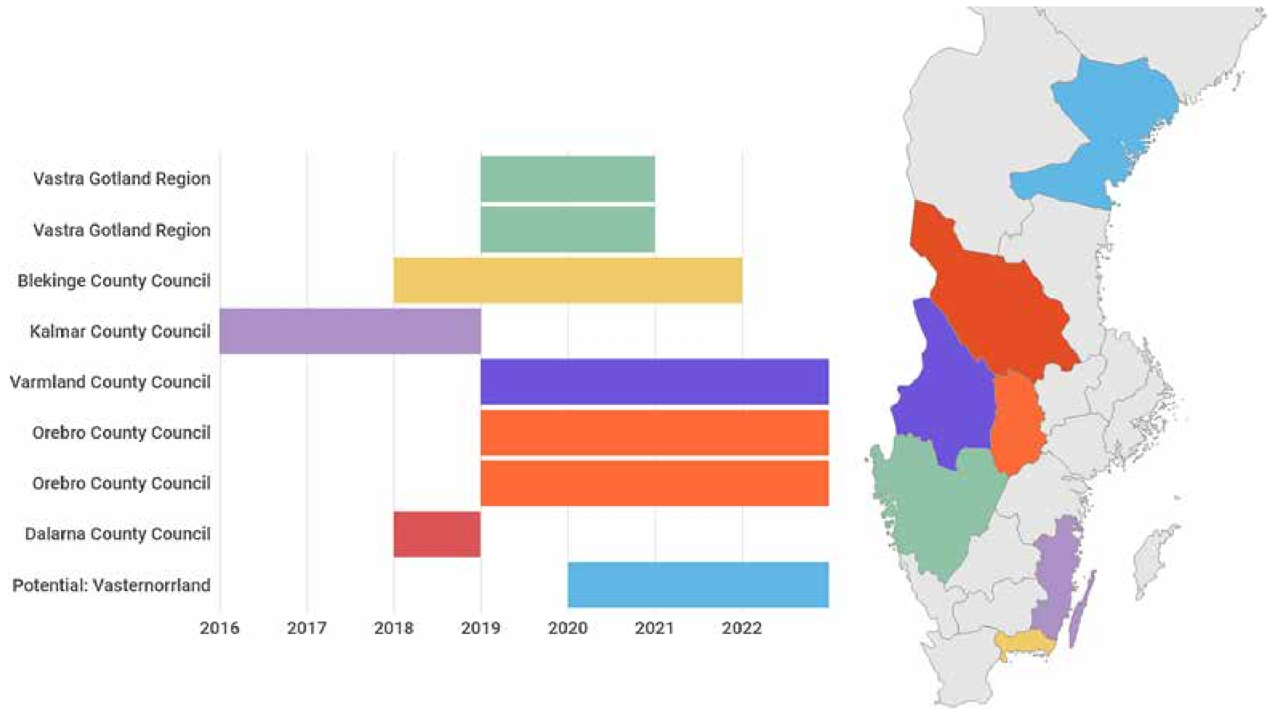
What used to be informal partnership or 'gentleman's agreements' between hospitals and teleradiology providers are increasingly public tender processes, as the volume of work hit thresholds which mandated publicly-issued tenders.

The UK is now a highly competitive sector with a dozen providers competing for 3-4 year tenders which has started to drive down prices. In the Nordics, less so, with most tenders a two-horse race between Unilabs-owned Telemedicine Clinic and privately-held Direct Diagnostic Alliance, both headquartered in Barcelona.

See the public tenders in Sweden since 2016 below, including modality, duration and contract winner (some have not been announced or issued yet). We suspect that a substantial portion of the Swedish teleradiology market is still informal based on the number of customers the two groups claim to have. HBI Intelligence users will be able to see a detailed market analysis and data (partially using the value of these tenders) when our Teleradiology report goes live in the next month.

> **"What used to be informal partnerships or gentleman's agreements are increasingly public tender processes."**

**FROM 'GENTLEMAN'S AGREEMENTS' TO A FORMAL MARKET**
PUBLIC TENDERS FOR TELERADIOLOGY SERVICES BY SWEDISH COUNTY COUNCILS (2016 -)

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UNITED KINGDOM AND IRELAND

## Irish nursing home group for sale

**Privately owned Irish nursing home group TLC Nursing Homes is looking for a buyer and has reportedly attracted bids from at least four different parties. We speak to a market source to find out more and look at both price and likely multiple.**

HBI hears the group, which runs five luxury nursing home facilities with 650 beds around Dublin, is looking to sell for €155m and appointed Rubicon Capital Advisors to broker the deal. Forecasted EBITDA for next year is around €12m, which would mean a run-rate EBITDA multiple of 12-13x.

"12-13x would be just higher than the previous high benchmark set by Patron's sale of the Gracewell Group to Health Care REIT and Sunrise Senior Living in 2014," says our source. "It was a similar asset – purpose-built, good south-east locations, a high degree of private pay patients".

Reports list French real-estate investor Primonial REIM, Dutch PE company Waterland, German property investor Immac and French PE InfraVia Capital Partners as bidders, with a sovereign wealth fund also reportedly showing interest. The seller, owner and chairman Michael Fetherston, is understood to be close to choosing a buyer though an agreement on price has yet to be made.

**OUR ANALYSIS:** Buyers like Primonial and Immac will require a tenant and investor sources tell us this is both an opco and propco sale. When Patron sold Gracewell, it sold the opco to Sunrise and the propco to US company Health Care REIT (now Welltower) – something similar might happen here.

## Teleradiology fails to wow investors despite growth

**The share price of Europe's largest teleradiology group by revenue, London-listed UK player Medica, is yet to recover from a post-IPO-boom trough for the last two years despite 15-20% growth and consistently high margins. We talk to new CEO Stuart Quin and an investment banking source about the jitters investors may have about the sector, including AI solutions eating its lunch.**

Medica grew H1 2019 revenues 18.2% to £22m (€25.8m), is debt-free, has demonstrated consistent gross and EBITDA margins of around 50% and 30%, respectively, and holds half of the UK teleradiology market which is growing in the 15-30% range due to a stark and unchanging radiologist shortage. Despite all that, as shown below, its share price not recovered from a fall in early 2018 sparked by a weaker-than-expected Q4 2017, although at 142p it is 5.2% up from the IPO issue price of 135p.

An investment banking source points to two potential drivers of bearish sentiment. First, NHS adoption of AI solutions could theoretically cut the need for outsourcing and, second, a re-think of how the public system works and shares costs with teleradiology providers could also hit the business.

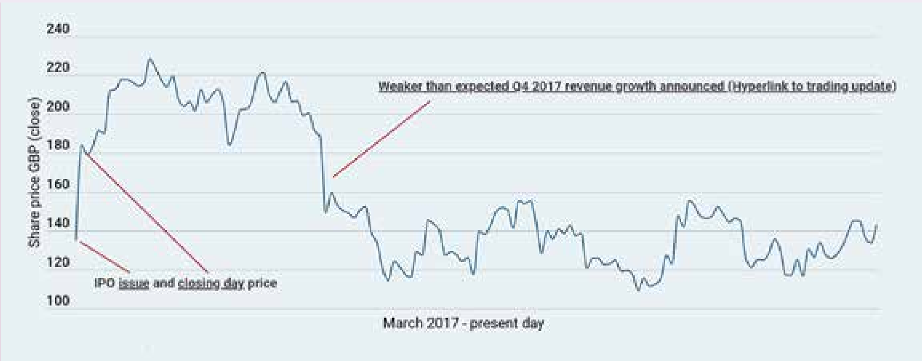
"At some point the NHS is likely to adopt AI risk stratification tools which may reduce the amount that a trust needs to outsource to providers like Medica. My question is: are the teleradiology companies spinning off enough cash to acquire those AI solutions and/or build up those capabilities?", our source asks. "At some point, they will need this tech to stay ahead of the game, although they'll never be completely replaced."

Stuart Quin, who joined as CEO on September 1 from global lab group Synlab, rightly points out that the AI panacea is still a long way off: "Whoever does the AI triaging, everything still needs to be read by a radiologist. AI algorithms centre on finding one particular thing and typically you find other issues.

"The Trust could deploy the AI and use their own radiologists to report on the most urgent images while outsourcing the less urgent ones, or the other way around depending on their workflow. We are best placed to eventually offer a range of AI solutions whereas a trust is unlikely to be able to work with more than 1 or 2."

Medica's view is clear from its H1 2019 presentation (which, it should be noted, was released less than a fortnight into Quin's tenure): "No evidence that AI tools will be able to increase effective

MEDICA GROUP PLC CLOSING SHARE PRICE SINCE MARCH 2017 IPO (135p/SHARE)




Note: All data points represent the closing price EXCEPT the first which serves to show the price at which shares were issued at IPO © HBI, 2019 capacity/productivity by as much as 20%, leaving a large structural driver for our services. AI development in the NHS has been incentivised but progress will be limited by...", before listing ongoing issues like safety, accuracy, liability and technology infrastructure. Its own use of AI for the moment will focus on workflow and clinical prioritisation (risk stratification) and trials may be launched next quarter.

Questions are also being asked of the UK's teleradiology groups' lack of contribution to funding radiologist SPAs -supporting professional activities like reading, teaching, attending meetings – which can fall disproportionately on the NHS Trust as their radiologists do more freelance teleradiology work, as the Royal College of Radiologists recommends a minimum of 6 hours a week without giving a precise recommendation for part-time specialists.

In response, Quin says that teleradiology providers do contribute to radiologists professional development in a similar way to SPAs: "We allow radiologists to build expertise in particular areas through both breadth and/or specialisation of their caseload, which is effectively on-the-job training. We also wrap a very efficient audit process around that, one which goes above the RCR's guidelines. This all, in turn, provides extra benefits to the NHS."

But our source thinks decision-makers don't see it that way: "The NHS is starting to look at this imbalance: if a radiologist is splitting their week 50/50 between the NHS and a teleradiology provider, it's only fair the teleradiology provider pays their share of the SPAs. But the problem is these companies are incredibly lean and don't have this built into their cost base, so if anything is done it will hit margins."

They add that tariff cuts for activity, already visible with "modest price reductions" for Medica's on-call and elective CT scans causing 1.3 and 2.2 percentage point falls in H1 2019's gross profit and EBITDA margins to 47.6% and 28.0%, respectively, may be more significant in future:

"There's been a land grab in the UK teleradiology market and these groups are finding it harder to win new contracts so a lot of their growth comes from historical ones. As they go from, say, 20% to 40% of a radiology department's spend, they will have to take some responsibility for the cost-saving. It's not happened substantially yet but will increasingly do so as they take a larger and larger share of activity."

However, note the proportion of Medica's revenue from clients gained in 2014 or earlier actually fell in H1 2019 compared with 2018. On tariffs, Quin adds: "The out-of-hours work (NightHawk) has seen a bit more competition as the NHS procures through framework agreements with set prices lasting 3-4 years, which allows it to get a competitive result. On the routine side, it's about delivering services through more integrated partnerships helping them better manage their capacity, and in time, add-on AI solutions.

It is also noteworthy that Medica's smaller competitors' are growing faster as per recent figures, with Everlight Radiology's UK subsidiary increasing sales by 35% to £24.6m in FY 2019 and 4 Ways Healthcare up 23% in FY 2018 (the last available figures). Has Medica grown too large and is this reflected in below-market growth?

Quin says: "The main limiter on growth in our volumes is the speed at which we can take on new radiologists, and our current capacity is going towards serving our existing customers as part of deepening the relationship with them. But we can increase the number of customers we have and we are doing that. Everybody in the market is growing as there is a significant amount of workload out there."

A fourth potential worry onlookers may have is to what extent a company like Medica can go international and start serving customers outside the UK. Our banking source does not disagree with the suggestion that the fact the UK providers are so interwoven into the NHS – to the extent they question whether the term 'outsourcing' is even accurate – could make it harder to internationalise. The successful international teleradiology groups like Barcelona-based Telemedicine Clinic and Indian Teleradiology Solutions have cross-border teleradiology in their DNA, having been set up initially to serve markets, from abroad, in which their founders had worked or trained.

Quin tells us that the group is not ruling out serving new international markets in future and that international recruitment in Australia/NZ to better serve the UK market could provide opportunities: "The current international strategy is about expanding the pool of reporters to serve the UK market. That recruitment may lead to opportunities to serve new customers there, and that is part of our strategy, but currently, we are focused on servicing all the demand from our existing customers."

**OUR ANALYSIS:** Having said all this, a low double-digit EBITDA valuation (where Medica's market cap currently sits) isn't bad for the UK healthcare service sector in the current climate!

HBI Intelligence users will be able to access our in-progress teleradiology report when it goes live in the next several weeks.

## UK real-estate investor acquires five nursing home sites

**UK real-estate investor Barwood Capital has acquired five sites on which it intends to build nursing homes with a total of around 347 beds, which it claims will deliver over £55m (€64m) Gross Development Value (GDV).**

The sites are located in south east England, in the London Borough of Sutton, Surrey, East and West Sussex, and one in eastern Scotland, each expected to provide between 64 to 77 beds. Barwood has sold two sites to operators and is in discussions for pre-lets for the rest.

The deal comes after Barwood partnered with property development manager Perseus Land & Developments in 2017 to fund the acquisition of sites for Barwood's Regional Property Growth Fund III, for which over £200m has been raised.

"We have invested where we believe planning can be secured for operators to build high-quality care homes," said Andrew Barlow, investment director at Barwood Capital.

> **OUR ANALYSIS:** Barwood has invested in prime private-pay territory, where providers can shirk off the low margins of local-authority funded care. In this area of the market, mid-sized players are doing rather well and moving toward a 50/50 private payor mix – which is in sharp contrast to some of the UK's big care home groups (such as Four Seasons) which are weighted toward public payors and not doing as well.

## GERMANY

### EBITDA crash for German hospitals

**One of the foremost experts on the German hospital sector predicts that recent legislation from health minister Jens Spahn will see EBITDA at for-profit hospitals crash by around a fifth.**

Professor Boris Augurzky of RWI Essen, whose annual report on the German hospital sector is compulsory reading for the industry, has told HBI that recent rules around nursing ratios and budgets will have a dramatic impact on for-profit hospitals. He reckons that their average EBITDA was just 11pc in 2018 and expects that to fall by around 2 percentage points.

The changes mean that the 17% of revenue attributed to nurses has been removed from DRG payments, with the nurses paid directly by the statutory sickness funds. This means that hospitals will no longer be able to make a profit margin on nursing staff. It is particularly bad news for the for-profit sector as it is stronger in East Germany where nurse pay tends to be lower. When the wall came down the big for-profit groups were encouraged to take over failing ex-communist era hospitals.

He says that it is possible that the groups may be able to mitigate some of this by relabelling some nursing activities but says nobody knows the answer.

Nor does Augurzky have much time for many of the other laws proposed by Spahn. He says that these often add to complexity and amount to micro-management.

## ITALY

### Italian nursing home group buys non-profit facility

**Italian nursing home group Edos, subsidiary of listed holding company Eukedos, is to acquire a non-profit nursing home facility run by a religious order. We speak to a local advisor about whether the market might see a growing trend of acquisitions in the non-profit sector.**

Edos runs a total of 16 facilities with 1,374 beds across five regions in northern and central Italy, and Eukedos had revenues of €51.7m in 2017. HBI understands the company was already involved with the facility, called Domus Pacis, as a management sub-contractor, but that services were delivered by the Congregation of the Sisters of San Giuseppe di Aosta in the Valle d'Aosta region.

The deal itself involves the acquisition of both operations and real-estate by Edos (Eukedos) for a total of €4m, but must be approved by the Vatican after May 31st 2020.

"The buying of non-profit religious groups has always been in the air and represents an important opportunity in Italy," says Andrea Minciarelli of Your Care Consult. "On the other hand, there is a reluctance from the side of religious orders to sell operations.

"So far very few transactions have been done between sectors, but I believe there will be more and more of them."

> **OUR ANALYSIS:** The Italian nursing home sector is characterised by regional markets and a strong north-south divide which leaves the sector highly fragmented and unfairly weighted toward Northern regions. Most care is delivered by religious non-profits and cooperatives, so a major growth opportunity lies in the sale of these facilities to the for-profit sector. Whether this becomes a larger trend or not remains to be seen, however. Edos had an advantage here in that it was already involved with the facility.

## SPAIN

### DomusVi acquires psychiatric day care in Madrid

**DomusVi, one of the top three Spanish providers of psychiatric care by revenue, has expanded its outpatient services by acquiring a portfolio of four day centres in Madrid.**

The centres, run by Montreal Psychiatric Institute, treat about 180 children, adolescents and young adults a year. One of the centres, which houses two units – one for children and one for adolescents – is funded by the Community of Madrid (a larger entity in which there are a number of smaller municipalities) under the Madrid Mental Health Service.

DomusVi Spain forecast revenues of €67.5m for its 2019 psychiatric and mental health services. This acquisition is the latest in a string of psychiatry deals at DomusVi in the last few years. The company created the Mentalia Salud brand in the spring, which now has eight different centres across the country treating over 1,000 people with 600 members of staff.

DomusVi Spain is a subsidiary of holding company HomeVi, which owns DomusVi's large nursing home operations in France, Portugal and Latin America, in which it is expanding rapidly through greenfield. The company had revenue of €1.3bn in 2018 across the nursing home sector, psychiatry and mental health and homecare.

> **OUR ANALYSIS:** The mental health sector in Spain remains dominated by non-profits and religious orders, but there is scope for consolidation with small deals. Market specialists expect new entrants from the rest of Europe onto this market.

## SWITZERLAND

### Tertianum sells to Swiss PE

**Assisted living opco Tertianum has been sold to a Swiss private equity company, its owner, listed real estate investor Swiss Prime Site (SPS), has announced.**

The buyer is investment company Capvis AG, and the deal covers 80 residential and care centres as well as residences throughout Switzerland. Tertianum Group employs around 4,700 employees who will transfer to the new owner together with existing management.

No price has been disclosed for the deal, which is expected to complete in the first half of 2020. Tertianum had revenue of €442m in 2018 and predicted 2019 revenue of €460m. It was acquired by Swiss Prime in 2013. Swiss Prime Site's share price rose but by under 1% on the announcement of the deal.

According to a Swiss Prime Site spokesperson: "The properties of Swiss Prime Site will remain in its ownership and continue to contribute to the balanced diversification of its property portfolio. With the sale of the Tertianum Group, Swiss Prime Site will be able to focus the business model even more on value creation from real estate and related group companies. The funds released by the sale will strengthen the balance sheet and flow into the implementation of previously announced projects currently in the pipeline. Swiss Prime Site will remain in partnership with Tertianum as one of the key tenants in its property portfolio.

"The funds from the transaction will further strengthen capitalisation and will be reinvested in the project pipeline. The EBIT of the Tertianum Group (approximately CHF 30m or €27m) will be offset by contributions from property developments. After the closing of the transaction, Swiss Prime Site anticipates a significant profit contribution in the group results of the financial year 2020."

SPS chief executive René Zahnd said in the summer that a lack of synergies with SNS' remaining business was one reason for the intended sale.

Boris Zoller, partner at Capvis AG, said of the deal: "We recognise the entrepreneurial performance of the management and the current owners and look forward to further strengthening Tertianum together with the management and expanding it through additional services."

## NORDIC REGION

### Is a Finnish care crisis on the cards?

**This year has seen capacity growth in Finnish elderly care "collapse" after the sector was shaken by scandals at some of the country's largest operators. With an increasingly elderly population in need of more accommodation and a public system unable to fund it, is the Finnish system facing a crisis in care?**

"I would say the current level of building activity is down three quarters from what it was a year ago," says Michael Schönach, head of real-estate investor Northern Horizon Capital's healthcare fund.

"Private operators just don't dare commit themselves to new projects when they need to be focusing resources on quality of care and getting staffing ratios back up to what they need to be."

Earlier this year, the CEO of nursing home group Esperi stepped down as the company faced accusations that the group compromised on quality of care in the pursuit of higher margins. Rival Attendo has also had problems with staff shortages leading to a worrying drop in occupancy. As a result, scrutiny has intensified for providers.

"The problem of an ageing population and the need for high-quality facilities remains," adds Schönach. "I have hope that once it gets bad enough, the government is going to have to be pragmatic about it – then I think the private sector will have to be part of the solution."

But when is bad enough? A new party leader has just been chosen by the Social Democrats, spelling more political change for Finland. The incumbent is seen as a young and idealistic replacement unlikely to turn to the private sector for solutions or get the country's much needed SOTE reform through parliament.

SOTE (social and health services) reform proposes opening healthcare provision up to the private sector through the principle of "freedom of choice" for patients, funded through a system of personal budgets and vouchers. The reform has been struggling to gain any traction for the last decade, though its most recent iteration is thought to have the best chances yet of making it through parliament.

**OUR ANALYSIS:** Despite political barriers, there is no lack of investor interest in existing Finnish healthcare real-estate due to the country's strong public financing and the consolidation of operators. European investor Aedifica has just put an offer on Finnish healthcare property developer Hoivatilat and listed investor Samhällsbyggnadsbolaget (SBB) has bought a portfolio worth SEK 1.5bn (€140m), over half of which are in residential elderly care. But investment remains on the secondary market rather than being funnelled into greenfield.

## EXCLUSIVE **Doctrin reduces frequent visitors by 39% at Capio**

In December 2018, B2B digital health player Doctrin started to integrate its solution into Capio's primary care health centres in Sweden. One year on it shares data with HBI that shows significant reductions in frequent attendances, increase in productivity and reduction in waiting times.

The project started in Capio's Ringen health centre in Stockholm, which has 28,000 registered patients and delivers 80,000 consultations a year with half of those being doctors appointments. Doctrin's solution – called Flow – was integrated so that it took symptoms from patients seeking an appointment in a text-based application and a small team of nurses treated and triaged 50-120 patients a day through asynchronous chat.

Even with just less than a third of visits digitalised between December 2018 and September 2019, the whole centre saw the average waiting time for a patient to visit their own doctor drop from 4-6 weeks to 1-3 days, Doctrin claims.

"We're seeing the same kind of results at our other centres too – it's not unique to this site," founder Magnus Liungman tells HBI. The solution is currently rolled out in around 150 health centres through Capio, Praktikertjanst and public regional authorities.

Patients contacting the centre by telephone had to wait for a nurse to return the call for an appointment – 20% of which were not returned in the same day. The Swedish has set a target of 100% same-day call backs. Through the pilot, the patients had the option of the digital pathway, which resulted in same day communications going from 73% to 95%.

It also saw a 20% increase in patients seeing the same health care professional three times in a row, more than a third increase in the number of patient contacts per hour and a 39% reduction in the share of patients seeking care more than seven times in a year.

Doctrin describes itself as a "digi-physical" care provider as it embeds itself into the patient's existing health and care structures rather than acting as digital only like its B2C competitors KRY (known as Livi in France and the UK) and Min Doktor. Recent backlash from policymakers has threatened the nationwide of existence of these 'pureplay' companies citing lack of continuity and spiralling costs.

The pureplay model has so far been financially viable, with KRY earning an impressive €22m in 2018 compared to Doctrin's €1.5m. But recent tariff cuts and political discussions about potentially stopping the pureplays from working nationwide threatens their future growth. Capio pays for Doctrin's solution in a capitated model.

Different models means it's difficult to compare their impact but the data does show that where the pureplays typically treat younger patients, who tend to be healthier, Doctrin's patient cohort sees the highest utilisation in the 31-50 age bracket. Liungman claims that its use by different age groups broadly matches up with people seeking physical care.

The data does show that the total number of digital visits have remained around a third of all visits since the solution was implemented, signalling that there's going to have to be some work done on patient acquisition to increase penetration.

"Right now we cover almost two million patients in Sweden so our number of digital interactions before the end of year will be around 700,000, which makes us roughly the same size at KRY. The pureplay providers have driven innovation but I think the real value is when you can interact with your GP," says Liungman.

## EASTERN EUROPE

## Orpea expands in Czechia as Penta makes plans to be largest player

**Nursing home operator SeneCura, Orpea's Czech subsidiary, is expanding into the south of the country. We speak to a market expert about business strategy at two of Czechia's biggest players.**

SeneCura has opened a facility of 130 beds in the town of Telè, southern Czechia. According to David Volny, partner at PE firm Dynacor Capital for the CEE region and board member of nursing home group Anavita (another Orpea subsidiary): "SeneCura's original plan was to grow to 30 homes in Czechia. It currently has 19 facilities, so it still has a way to go.

"But if you have a subsidy from regional authorities to expand to a new town, it's a really good deal. Not only will you stand out as having better quality care than state-owned homes of a similar price, but employment costs are a quarter to a third lower than in the big cities."

Penta-backed rival Alzheimer Home (AH), a small Prague-based group, has about 250 beds and according to Volny has ambitious plans to become one of the top players in Czechia.

"Penta has two large projects in Prague which will be opened in the next 12 months," says Volny. "The group will get to around 500 beds which will make it the number one operator in Prague. It wants to be number one or two on the for-profit market nationally in the next few years.

"Outside of Prague it is quite weak, however, and it will take the group some time to expand geographically. SeneCura is better placed to grow faster outside of the capital."

Penta bought Alzheimer Home in June 2018 and plans to grow through both M&A and greenfield. According to Volny, it is currently in the process of closing a transaction and has recently secured one or two plots to build on.

Orpea acquired SeneCura in 2015. The group is present in both Austria and Czechia and had revenues of €180m in 2018.

**OUR ANALYSIS:** The recent entrance of Penta onto the Czech market should attract further investor interest in the sector.

The country will require an additional 80,000 beds before 2030 and private pay is the largest source of income for providers.

## Penta hospital sale looks less likely

**The failure of Slovakian opposition parties to build a coalition or push through a bill banning verticalisation in healthcare could make a minority sale of Penta Investments's CEE hospital business PHI less likely.**

Penta Investments owns Slovak hospital chain Svet Zdravia, the country's largest and 50% of sales/90% of EBITDA for Penta Hospital International (PHI); Dovera, one of Slovakia's big three statutory insurers; and Dr Max, the largest pharmacy group in Slovakia, Czechia and Romania (and present in five other countries).

The investment firm's strong presence in Slovakian healthcare is a highly divisive issue and opposition party Progressive Slovakia/Together (PS/T), second in the polls to leader of the parliament Smer party, has put forward a bill called "Lex Hašèák" that would ban cross-ownership in the three sectors and give companies 24 months to dispose of assets to comply; failure to do so would incur "high daily fines." Slovakia elects a new government in February and a PS/T-led government may be more likely to get the bill through parliament.

The bill, named after one of Penta Investments' founders Jaroslav Hascak, is seen as a direct attack on the firm which responded to it in October: "We perceive the proposal presented by PS/T as part of a pre-election campaign and populist nonsense that does not solve the current problems of the Slovak health care system."

However, the bill is unlikely to pass the current parliament in its current make-up according to political commentators and coalition talks between PS/Tand other parties to displace Smer's three-party ruling coalition have reportedly failed, meaning Smer remains favourite for the February poll.

Emails sent to Penta's investment director for healthcare and PHI CEO Martin Hrezo are unanswered at the time of going to press.

**OUR ANALYSIS:** Independent CEE-based investment and advisory sources both earlier told HBI that threats around the cross-ownership of assets, including the bill and possibility of PS/T-led coalition after February, was at least partly behind Penta's consideration to sell a minority stake, which may appease critics of Penta's market position. How much traction the idea of banning cross-ownership has amongst voters remains to be seen, but with it at the forefront of this election, expect an answer in February.

# MIDDLE EAST AND NORTHERN AFRICA

## REIT buys NMC hospital in Saudi Arabia

**A real estate investment trust (REIT) has acquired a hospital building in Riyadh, Saudi Arabia, operated by London-listed EMEA group NMC Health.**

Al Rajh Capital has bought the 100-bed general Al Salam NMC Hospital building for $44m (164m Riyals) through Al Rajh REIT, its publicly-traded property vehicle with a market cap of just over 1bn Riyal ($266m) according to Bloomberg.

Total income from the property stands at 11.71m Riyals ($3.12m) meaning a yield of around 7%, with a five-yearly rental inflator of 5% on the 15.75-year lease. The transaction was financed through a shariah-compliant debt facility.

A local real estate services executive tells us both figures are on the low side, with healthcare property yields normally at 8-9% in Saudi Arabia.

This may partly be explained by the strength of the tenant as well as the prime location. UAE-based NMC Health acquired Al Salam Medical Group in 2017.

Colliers MENA head of healthcare previously told HBI that hospital property in Saudi is a $15-18bn property market, of which around $8bn is private sector facilities.

> **OUR ANALYSIS:** This is the first major deal by a REIT in Saudi Arabian hospital property that we are aware of, though expect it to be a while before a formal secondary market opens up (properties trading between property investors).
>
> REITs were only legislated into existence in Saudi Arabia two years ago and buying has mostly focused on hotels and offices until now. There are also questions over whether the need to use shariah-compliant debt facilities will deter the US and European REITs from entering the market.

## LATIN AMERICA

### Brazilian investor to construct hospitals for Rede d'Or and UnitedHealth

**Brazilian hospital operator and holding company Evipar (Eustácio Vieira Participações) is investing R $400m (US $96m) into the construction of two new hospitals to be rented out to the country's largest healthcare providers.**

"It surprises me that we are still investing in hospitals while the main trend is outside of hospital care," says Daniel Greca of KPMG Brazil. According to a KPMG report, there are 6,500 hospitals in Brazil, over 70% of which are in the for-profit sector. But the biggest opportunities, according to the report, lie in digital health.

But this has not stopped Evipar, a family-run business which sold two hospitals to UnitedHealth and Rede d'Or three years ago. The company is building two more facilities in the northern city of Recife in Pernambuco and will be renting them out to the same two providers.

Evipar also created an R $80m (US $19) private equity fund to invest in digital health.

The company's founder, Dr. Francisco Eustácio Fernandes Vieira, is on the board of Brazil's National Association of Private Hospitals (ANHAP), an interest group representing the 100 most important hospitals which set the national agenda.

In 2014, group turnover for Evipar was over R $400m (US $96m) and the company saw growth of over 11%. Evipar also has two diagnostic centres, Memorial Diagnostic and Santa Joana Diagnostic.

Just last month, future tenant Rede d'Or acquired a hospital network as well as a group of clinics for R $900m, reportedly outbidding HMO Hapvida, as the largest players compete for market share in the South.

> **OUR ANALYSIS:** Brazil's for-profit healthcare sector has no primary care to speak of, so all care takes place within hospitals – unlike the public and non-profit sectors which use family doctors.
>
> With 57% of healthcare spending focused on the for-profit sector, and large players actively looking for more market share and acquisitions, it's no wonder Evipar still perceives investment opportunities. It'll be interesting to see whether Evipar stays on as property manager and extends further into healthcare real-estate.

### Hapvida acquires cooperative in São Paulo state

Brazilian HMO Hapvida has acquired cooperative insurer-provider Medical Medicina Cooperativa Assistencial de Limeira (Medical) for R $294m ($ 70m) in the state of São Paulo.

Medical Medicina has 80,000 clients and runs a hospital with 100 beds which includes oncology, haemodialysis, adult and neonatal ICU, emergency services and surgery. Local reports cite synergies with the São Francisco group, a hospital network which Hapvida acquired earlier this year.

The news comes shortly after rival Grupo Notre Dame Intermedica (GNDI) acquired provider Clinipam, another vertically integrated insurer with 333,000 clients and a network of 10 labs, 19 outpatient centres, one imaging centre, four 24-hour accident and emergency units and two hospitals with 133 beds.

Hapvida and GNDI are snapping up providers in the South of the country in a "territory war" for market share, according to one advisor. The South of Brazil is the most sought-after part of the market but also where competition is the densest.

> **OUR ANALYSIS:** Elsewhere, though still in the South, lab group Diagnosticos da America (DASA) merged with hospital network Rede Impar, creating another large competitor for Hapvida and GNDI (the second-largest provider of healthcare services in the country after Rede d'Or, in fact) which could provide services for the likes of Sulamerica or Bradesco, two other insurers which are looking to vertically integrate.

## INDIA

### NMC Health founder and Manipal "front-runners" for Columbia Asia's Indian hospitals

**TPG-backed Indian hospital group Manipal and BRS Ventures, the investment firm of NMC Health's founder B.R. Shetty, are reportedly leading the pack to acquire the Indian portion of Columbia Asia from its American owners.**

Seattle-based Columbia Pacific Management agreed to sell the Southeast Asian hospitals for $1.2bn to TPG in partnership with Malaysian conglomerate Hong Leong Group in September. Sources close to the deal told HBI that Hong Leong was "less comfortable" with the Indian market.

A separate process for that segment is underway with binding bids expected this week. Local sources say they could value the 11-hospital portfolio at $250-280m (1,800-2,000 crore) on revenues of, we estimate, around $150m in FY 2020 and a transaction could close as early as March 2020.

The list of interested parties include Manipal Hospitals, BRS Ventures, General Atlantic-backed KIMS Hospitals and KKR-backed Radiant Life Care, which is about to merge with Abhay Soi-led Max Healthcare. Manipal was outbid on Fortis by IHH Healthcare in 2018 and missed out on acquiring Medanta this year, reportedly due to valuation mismatch.

## IMAGING AND LABS

### Affidea launches AI pilot for lung cancer screening

**Pan-European imaging and outpatient group Affidea is launching its third AI project in partnership with a Dutch AI startup.**

Affidea is implementing (AI for radiologist startup group) Aidence's clinically-approved AI algorithm 'Veye Chest' in Italy, Greece and Hungary. The software aids radiologists' work by detecting, classifying and tracking the growth of pulmonary nodules (growths on the lung), in order to drive the earlier detection and treatment of lung cancer. It provides info on nodules that are 3mm or larger. Affidea plans to roll the software out across its other markets if the pilot is successful.

A hospital radiologist with experience of AI solutions, speaking generally on the topic, tells HBI: "AI solutions are really interesting but they actually create more work for us radiologists, not less. They bring a lot more information to an image that we otherwise might not have which needs interpretation, and of course they can detect things that are not a problem, or are not relevant. A lot of people think AI will decrease the need for radiologists but that doesn't seem to be the case."

**OUR ANALYSIS:** The need for AI tools to help radiologists is expected to grow substantially as imaging volumes explode thanks to an increase in public health screenings following recent EU recommendations. Hungary has some of the worst five-year cancer survival rates in Europe but has been investing heavily in imaging capacity to rectify this. There are two main issues with existing AI solutions according to industry experts HBI has spoken to recently. First, AI solutions are programmed generally to look for just one thing, while a radiologist might see 100 different things in a scan. Second, they create more work for the radiologist, much of which may not be necessary, by picking up things which are either not there are not relevant for the clinical decision.

KEY INFOGRAPHIC 2

# Europe's 10 fastest-growing teleradiology companies

**As part of our research for the HBI Intelligence report, we have identified the fastest-growing teleradiology service providers based in Europe. But how long can they keep up this high double-digit sales growth?**

The infographic below shows the fastest-growing teleradiology groups we have identified in the UK, Finland, Spain, Hungary, Germany and France with sales over €1m in 2018 (going any lower renders growth comparisons pointless).

Two possible glaring omissions are Spain-based Direct Diagnostic Alliance and Unilabs-owned Telemedicine Clinic, whose figures are not available, but may not be as high-growth as they are established players, having pioneered the Spain-Nordic stream of cross-border reporting.

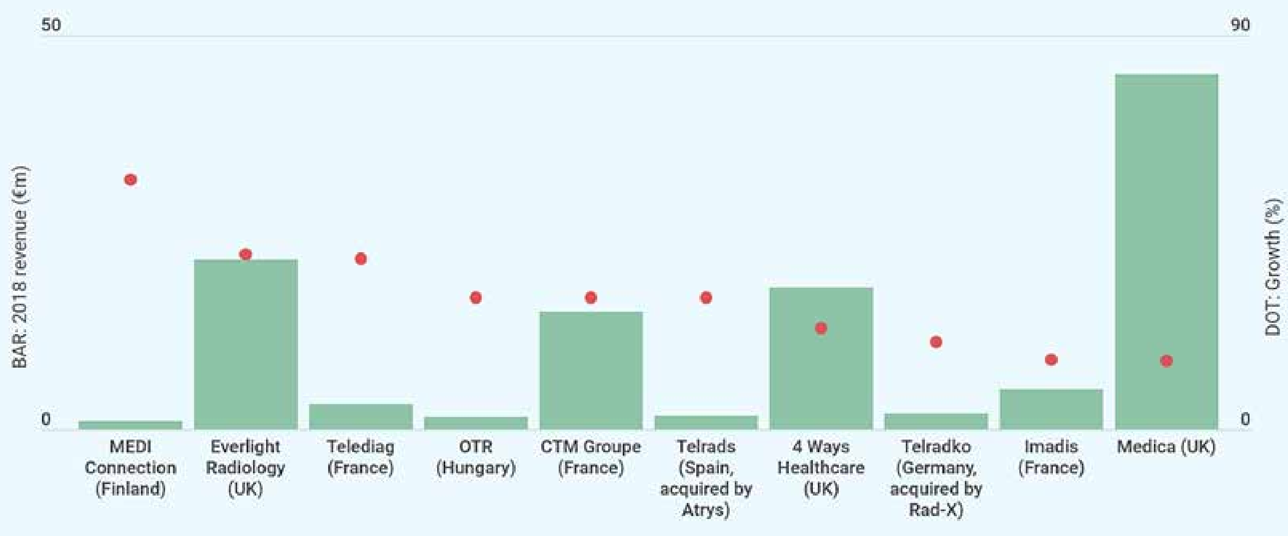
Maximise the infographic using the icon in the top-right. This free infographic serves as a guide only, with full financial figures of the companies available to HBI Intelligence users.

We expect there are other operators missing from this, possibly from Italy, Russia and Portugal, where we have identified several mid-sized players but have yet to obtain reliable figures.

**OUR ANALYSIS:** The figures are certainly impressive but the question is how long they can go on growing at that pace.

Questions are being asked in Europe's developed markets about the role of teleradiology providers in exacerbating the radiologist shortage which they claim to be a solution for. One curb on growth, or at least profitability, could come in the form of making them contribute more in the non-clinical activity costs of radiologists, which in some cases falls disproportionately on public health systems. The other is tariff cuts. As these groups become a larger and more embedded fixture in radiology departments, expect them to take on a larger share of the cost-cutting burden – probably negligible for now.

**GROWTH, GROWTH, GROWTH - BUT FOR HOW LONG?**
EUROPE'S 10 FASTEST-GROWING TELERADIOLOGY COMPANIES (WHOSE FIGURES ARE AVAILABLE; BARS REPRESENT REVENUE WHILE DOTS REPRESENT YEAR-ON-YEAR GROWTH)




Source: Publicly available information and conversations with sources close to the companies
Notes: 4 Ways and Everlight Radiology figures are for year-ending 31 March 2018, as per UK financial year; Infographic does not include companies under €1m in sales as it is unfair to compare growth at that stage; Some of these groups offer services other than teleradiology

## Healthcare REIT interest ever stronger and unswayed by operator woes

**AUTHOR: Anaïs Charles**

Long leases and attractive yields are the cornerstones of healthcare real-estate which have greased the wheels of investments over the last 10-15 years. More healthcare-specialised funds are emerging now as laws open markets up to foreign capital and fund managers look to decrease investor risk.

Take the UAE. Last spring, it legislated to open its healthcare market up further by allowing investors to fund labs, polyclinics, ophthalmology clinics and a number of other healthcare services – previously they were restricted to large hospitals only. In the last 18 months, Saudi Arabia has allowed the creation of healthcare REITs and specialised investors have increased in both Saudi and the UAE.

In Finland, real-estate investors seem unperturbed by building activity drastically falling in the nursing home sector. One of Europe's largest REITs Aedifica, which has investments in Belgium, the UK, Germany and the Netherlands to the tune of €2.3bn, recently put a public tender offer on healthcare property developer Hoivatilat – which would spell its very first entry into the Nordics.

The UK has seen particular interest from international investors and boasted the largest investment volumes in Europe in 2018 at €2.7bn. In January 2019, Aedifica entered the UK for the first time. Yet conversely, the UK operator market is struggling with tight budgets and political uncertainty. The sector's largest provider by revenue Four Seasons is facing a potential carve-up in a desperate bid for a sale, and is in the process of renegotiating rent with its landlords (one of which is Aedifica).

As residential care markets are increasingly consolidated and healthcare groups from hospitals to clinics get larger, providers may look to specialised property funds to manage ever-growing portfolios. It looks like investors will be only too happy to oblige – but who will they be?

While there is a cohort of well-informed healthcare service-savvy investors bringing experience to the table, the attractiveness of the sector is bringing investors hitherto inexperienced in healthcare to the sector. Some operators stridently tell HBI that they only want investors with an awareness of the particular needs and sensibilities of healthcare. Could this be storing up problems for the future?

## Agency models look easy to disintermediate

**AUTHOR: Max Hotopf**

How would you describe a for-profit healthcare group which basically takes people away from jobs in the public sector and then hires them back to the same employers in exchange for a fat fee? How about parasitic?

No doubt such outfits would claim to be providing extra flexibility and a necessary service. But at one level it is mainly necessary because they have tempted public sector staff into better-paid freelance or overtime roles.

If that is all these groups do then we think such models are likely to be disintermediated by new tech players. For example in the UK, The Locum's Nest, a sort of LinkedIn which matches NHS doctors to other NHS roles, is rolling out what it grandly calls The Digital Collaborative Bank – the NHS' first digital collaborative staff bank. The idea is that doctors in an NHS hospital can immediately see all shifts available in other, neighbouring NHS trusts.

Ahmed Shahrabani, the founder of Locum's Nest, tells HBI that the bank has already boosted fill rates in a lot of trusts. "We've already seen fill rates, within the Digital Collaborative Bank go up to well above 80% and some departments are hitting 90%. Some departments are even completely agency free and haven't used an agency doctor in 6/8 months. So in theory, the bigger this gets the lower the reliance on agency and it could eventually become agency free."

This has already been done on a smaller scale with its South England Collaborative which saw Trusts in the south-east come together to match doctors to 40,000 vacant shifts this year. Locum's Nest claims that if all that time had gone through traditional recruitment agencies the cost would have been approximately £4.8m instead of the just under £500,000 that Locum's Nest charged.

Indeed it reckons that if rolled out nationwide Locum's Nest could save the government £1bn a year.

So the question becomes which private groups are really agency models? Recruitment, of course. Teleradiology? Arguably. And many large for-profit groups in the Nordics and the UK also have substantial arms handling recruitment. We think the for-profit sector needs to hunt hard to add more value. The agency model is dead.

KEY INFOGRAPHIC 3

# Brazilian M&A shows "territory war" for the South

**This year, Brazilian healthcare has been characterised by a flurry of activity from two vertically integrated insurers in particular. The most intense competition has occurred in the affluent South, where providers are battling it out for market share.**

Insurers Hapvida and Notre Dame Intermedia, which both IPO'd in the spring of 2018, have been competing for business in the South where rivals SulAmérica, Bradesco, Amil and Unimed are all present. Hapvida almost has a monopoly in the North and North East and establishing itself in the South, with its acquisition of São Francisco this year for R $5bn (US $1.26bn), was an important move.

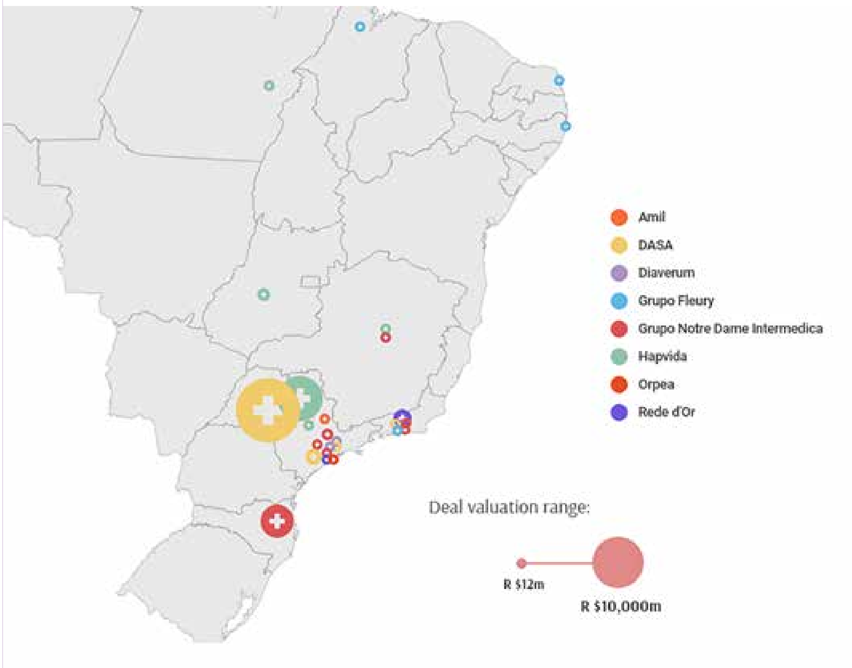
But rival Notre Dame has been particularly prolific in the region this year, buying at least seven healthcare providers in the states of São Paulo, Santa Catarina, Rio de Janeiro and Minas Gerais. Its biggest deal was the acquisition of Clinipam last month for R $2.6bn (US $653m), despite the market speculating that Hapvida would win the bid.

Another interesting event has been the merger of diagnostics and imaging group Diagnósticos da América (DASA) with São Paulo based hospital network Rede Ímpar, which has created the country's second-largest healthcare provider with revenues of R $7bn (US $1.6bn) – and a large competitor. Market experts speculate the group could be vertically integrated into the likes of Bradesco or SulAmérica.

Brazil's largest insurer by revenue Amil, by contrast, has contracted this year with the de-listing of hospitals, the closing of facilities and the loss of 1.96% of its clients from August to September. Owner UnitedHealth Group demanded the group make company-wide changes to cut costs and improve returns. Though Amil still acquired an ophthalmology clinic and an oncology centre in São Paulo state during the second half of the year.

Large European groups saw further expansion on the Brazilian market as well. German-based dialysis group Diaverum, the third-largest global provider of such services, acquired two more assets in the South. European nursing home giant Orpea bought a 20% minority stake in São Paulo based Brasil Senior Living, with the option to buy out the company within five years.

**BRAZILIAN M&A IN 2019 ACROSS BIGGEST HEALTHCARE GROUPS**




**Please visit our website for the interactive version of this image**

Source: HBI Deals + Insights and local reports



**"Market experts speculate the merged Diagnósticos da América and Rede Ímpar could be vertically integrated into the likes of Bradesco or SulAmérica."**

# Carlos Fernández de Araoz, partner and head of senior housing, Azora

**Spanish real-estate investor Azora created a listed healthcare investment arm, Adriano Care, this summer. The REIT has just acquired its first assets and plans to invest €250m in Spanish senior residential care. We speak to Azora's head of senior housing, Carlos Fernández de Araoz, about the market, business strategy and future plans for Adriano.**

CARLOS FERNÁNDEZ DE ARAOZ, Azora

"We believe senior housing is going to be one of our key segments for the next five years, mainly in the property arena," says Fernández de Araoz. "But we are seeing opportunities to acquire both the property and operations, which we are willing to do on a temporary basis if it meets our criteria.

"The asset needs to be located in areas with strong potential, or to have good potential for being renovated and the business transformed if we are to acquire its operations. If an asset is in bad shape, we don't want to bring in an operator at that point and negotiate terms with them as we'd have a weak negotiating position.

"Instead we renovate and manage the asset, bring it up to speed from a business point of view to increase its performance and then negotiate terms with the operator."

Adriano Care recently bought six nursing home facilities and a site in Madrid for €76m, its first investment as part of a €250m fund which the company will deploy entirely in the Spanish nursing home sector. Company strategy is not to look for the best triple net lease contracts, but to renovate and restructure where necessary.

"We are a value-added investor, which means we are interested in fixed and variable rents allowing us to capture the upside of the business," he adds. As for the Spanish market, he sees plenty of potential.

"We've evaluated a total €400m of potential investment in residential care, but there is a good €10bn asset base to go after in Spain. We believe the country has an annual investment need of around €2bn per annum in terms of building new homes. So in our view there is plenty to be done."

Adriano Care is looking at opportunities where EBITDAR margins are around 25% and above. When it comes to yields, Fernández de Araoz is more optimistic than competitors Aedifica and Healthcare Activos, who put levels at around 5-6%.

"Yields depend on the location, the operator, the type of contract, whether it needs renovation, etc. So it's always difficult to compare levels. But I would say you can invest a couple €100m within a 6-6.5% bracket. That said there are some situations that would go between 5.5-6% and very few exceptions in the 5-5.5%.

"That doesn't mean that tomorrow, big players won't make an investment at 5.15%, but it doesn't mean it's representative of the market. You have to understand the context of the deal and the rationale of the buyer.

"There are rumours that one of the larger groups recently sold a portfolio of 20 assets to a group of investors at a low yield, for example, but this is a portfolio sale where all contracts are well organised and the assets fully renovated. These types of deals are the exception."

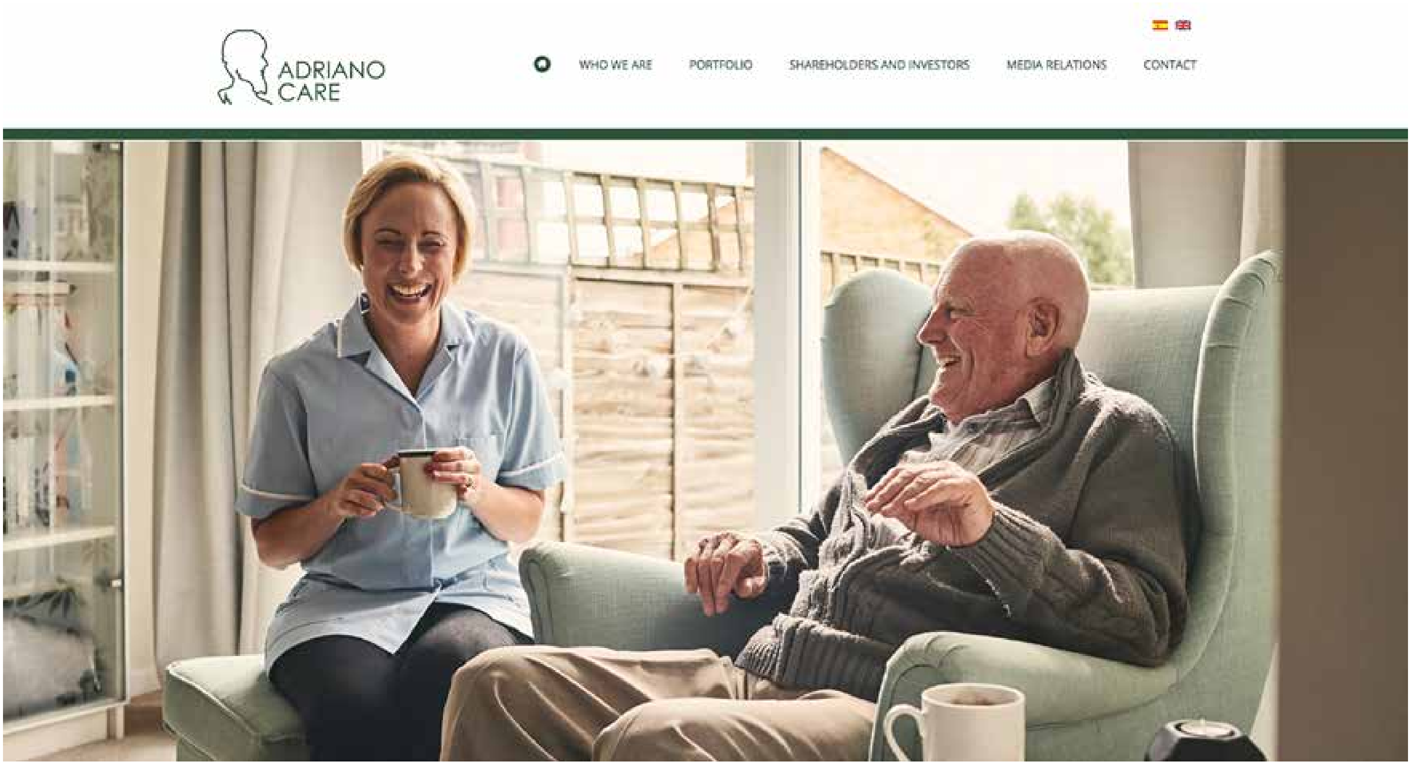
Healthcare Activos is Adriano's main competitor, though Cofinimmo recently entered the market and we hear Aedifica might look into Spain after entering the Nordics. Large operators are also competitors. Orpea, which has a large presence in Spain, looks to own half of its property.

Adriano Care plans to expand into other segments as well and is even looking beyond Spanish borders.

"We tend to favour more of a care-light product, so we are looking at opportunities in assisted living and have a couple of offers on the table now. But we are also looking into creating a vehicle that would invest in the development of nursing homes – Adriano invests mainly in operating assets.

"From a geographical point of view, we are already starting to think about what team and structure to put together in order to invest at a European level. There are opportunities in Italy for the brave guys, and opportunities in Northern Europe for the more conservative guys. We are interested in both.

"We are analysing opportunities in Portugal as it's a market we know well. But we are also looking very strongly at Italy, the Netherlands and Germany. It could be that in 24 months we start to play the European game."



INTERVIEW 2

# Boris Augurzky, RWI Essen

## In 16 months hyperactive German health minister Jens Spahn has put forwards 16 new laws covering everything from digital health to nurse ratios. We talk to Boris Augurzky, an academic expert, whose annual report on the German hospital sector is an eagerly awaited event, about the likely impact of all this.

He thinks that German hospitals are likely to face huge financial issues thanks to some Spahn reforms but adds "You can't fault his productivity!"

The main issue for hospitals is the changes to reimbursement of nursing staff. "The new laws here mean that the 15% of revenue made up of nursing employment is removed from the DRG system and the costs of nurses salaries are reimbursed by the statutory sick funds." This means that hospitals, public and for-profit, can no longer make nurse employment a profit center.

He says that "in the east (where nurse salaries are lower) hospitals will lose and in the south (where salaries are higher) they will win."

Nurse patient ratios have also been raised. This does not have a direct effect on the bottom line as it will be met from statutory insurers' funds. But the bigger issue is that there is already a 50,000 shortfall in nursing numbers. So we will see even more intense competition for a scarce resource.

More training is promised but the new pipeline will take years to switch on. "Hospitals are faced with recruiting from abroad, some have already gone as far afield as Mexico and the Philippines or taking them from nursing homes or seeking to encourage more nurses to work full time." Taking nurses out of the long-term care system, where due to demographic change they are also urgently needed, will he says have "a serious impact on society."

He predicts wage inflation: to attract and retain nurses, hospitals will seek to promote them to boost their pay.

Ultimately, he thinks the issue is one of culture. "You retain nurses where they are in a team and feel they have support and that is difficult if there are big shortages. " German nurses have much less autonomy than those in the Nordics, the UK or Spain/Portugal and Augurzky says doctors need to change their attitude and delegate more.

Spahn has been hyperactive around digital health, but Augurzky says measures don't go far enough and have not been thought through properly. He remains highly sceptical. "Every year in Berlin they say the new airport will be finished by autumn. It is the same with electronic patient records for 15 years now."

Here there are three main competing electronic patient records. Augurzky says Spahn has made it law that by January 2021 all hospitals have to be able to interact with the new digital health infrastructure. But with which electronic patient records? "The problem is we need interoperability. You can digitise records in a hospital but how do you ensure the pharmacy or family doctors can use them?" He thinks that Spahn needs to specify which electronic health records system Germany will use.

There are of course big data protection issues here. But Spahn reckons the problem is deeper supposes Augurzky. "Doctors don't like transparency. They don't want the patient to be able to see outcomes and measure quality. Electronic patient records will allow that eventually."

Another major issue is the failure of German hospitals to move simple procedures into outpatient settings where they can be carried out far more cost-effectively. Here Germany lags far behind the UK, the USA and the Nordics. Augurzky says this is partly because "of course, Germany's specialist outpatient doctors don't want to let hospitals into their sector" and partly because the two tariffs are still so far apart. "For common treatments tariffs vary considerably. A procedure in the outpatient sector was €500 and €3,000 in inpatient. Of course, hospitals prefer the inpatient route."

This reflects divisions within the German healthcare system whereby there are separate budgets across Germany for inpatient and outpatient. Various interests stop money moving from one budget pot to the other. Meanwhile, the powerful Kassenaerztliche Vereinigung, which represents German outpatient doctors is opposed to hospitals doing more outpatient work as this would remove budgets held by Germany's 60,000 specialist outpatient doctors who practice outside hospitals.

Augurzky says Spahn is seeking change here. "He wants a new law next year on this subject and the discussion is intensive. I think it will only change small things unless the law forces hospitals to do certain procedures in outpatient settings. We might also see hybrid DRGs with the same price for outpatient and inpatient at some stage in 2020 or 2021."

He expects change here to start in under-serviced rural areas in the east, where there are not enough specialist outpatient doctors, meaning that work will have to be transferred to a hospital outpatient setting. "Put it another way, specialist outpatient doctors in East Germany are finding it much harder to sell their practices on retirement as there are so few incomers. That will change how they feel about hospitals!"

## INTERVIEW 2

Germany under Spahn has moved to enable telehealth sessions which are now paid for by the insurers. Augurzky welcomes this but points out that doctors can still not prescribe based on telehealth sessions. This is an issue. "It is chronic patients who know precisely what they want in the way of drugs, but don't want to visit the doctor physically who would gain most from such a service." Indeed, Spahn wants to introduce electronic prescriptions.

There is another major problem – access for researchers to patient data remains difficult in Germany by strong data privacy laws. Here he agrees that Spahn is trying hard. "He has set up a new institution and brought in new people. At the moment data held by the insurers is difficult to use for research but I think we will see change here."

One big issues in Germany is that it operates a two-tier parallel system with different prices paid by statutory insurers from the wealthier 11% who have private insurance. Even weirder, as you need both houses of parliament to agree and you have to find the time in the legislative timetable, the prices paid by private insurers have not changed since the early 1990s. This means that in some areas such as lab tests the prices are ridiculously high.

The SPD, the junior party in the coalition wants a unified insurance scheme for all Germans and the abolition of private insurance.  But the CDU, to whose party Spahn belongs, does not. Augurzky says that Spahn has initiated research at the Ministry of Health concerning a convergence of the private and public price systems. Will this lead to change? On the whole, he thinks this is unlikely. "If private insures pay the same prices as the public insurers, the private insurance fees will fall which would make private health insurance much more attractive so I suspect that unifying private and public health insurance is the only option but achieving this would be very difficult."

There is another bigger problem. "In 2017 and 2018 we saw for the first time a drop in patient numbers in German hospitals. It is falling by 0.2% or 0.3% a year and I expect a further reduction in 2019" Quite why is a bit of a mystery as more old people should lead to more hospital patients. Agurzky hypothesises that this could be the impact of the switch to outpatient or simply reflect a lack of medical staff

This is coupled with the retirement of the first baby boomer generation in the early 2020s: "As baby boomers retire they are replaced with generations which in Germany are half the size." This means fewer doctors and nurses and also lower insurance premiums to support the system.

For the for-profit sector this is also an opportunity.  Already a lot of not-for-profit hospitals are being forced to look for new sellers. For instance, in Oberhausen, a catholic hospital was recently sold to German hospital and psychiatry player Ameos. As the tax take drops, Augurzky thinks that in 3-4 years time politicians may be forced to sell off municipal hospitals. But it will become increasingly easy for for-profit groups or big university hospitals to end up getting a lemon as the hospital landscape is reconfigured.

So how does he rate Spahn? "At least he is trying to change things against the large systemic resistance. But many of the rules he is bringing in merely add to the complexity and bureaucracy."  So one and a half cheers, perhaps.

**BORIS AUGURZKY,**
**RWI Essen**

# Dentistry: At a tipping point for PE consolidators

**Retail healthcare investors who have seen the European veterinary space undergo an eight-year period of rapid practice consolidation by private-equity backed groups are beginning to look at dentistry. Will yesterday's investors in vets tomorrow invest in dentists? HBI chats to Mansfield Advisors to find out more about how dentistry could be at a price tipping point that will favour big consolidators.**

Mansfield engagement manager Kamal Dhami tells HBI: "While there remains room for further consolidation in vets, investors are now turning their eyes to a similar sector at a far earlier stage of consolidation – dentistry. In 2012, the UK veterinary services market was only 11% consolidated, led by the publicly-listed CVS Group, Vets4Pets and Companion Care, while August Equity's Independent Vet Care (IVC) formed just one year earlier. Outside of the UK, there were few major groups including Evidensia and Anicura, set-up by Valedo Capital, and two Swedish investment firms.

"By 2018, the number of independent sites acquired per year by consolidators had increased 6-fold from ~95 to ~600, in the UK. The successful exits by August Equity (IVC), Summit Partners (IVC), Valedo Capital (Evidensia), Nordic Capital (Anicura) and Sovereign Capital Partners (Linnaeus Group) have proven value creation through multiple arbitrage."

That consolidation is now slowing however. Dhami sees similarities: "The UK dentistry market today resembles the veterinary market as it was in 2012 – 15% consolidated, and led by two major groups: Bupa Dental, and mydentist (backed by Carlyle and Palamon Capital). This is reinforced by a tail of smaller groups including CBPE-backed Rodericks Dental, Dentex, Core Equity's Portman Dental and August Equity's Dental Partners. Three private equity-backed groups are established across Europe – Nordic Capital created a platform at the start of 2018 through three acquisitions including part of Oaktree Capital's Hesira portfolio, EQT acquired Curaeos a few months earlier, and Swiss-based Jacobs Holdings acquired both Colosseum Dental in Scandinavia and Southern Dental in the UK. This year, UK-based Dental Care

| | DENTISTS | VETS | |
|---|---|---|---|
| | 2018 | 2012 | 2019 |
| **Consolidated %** | 15% | 11% | 50% |
| **Market Size** | £7.1bn | £2.4bn | £3.8bn |
| **% of practices sold which are bought by corporates** | 10-15% | 10-12% | 75% |
| **Approximate Acquisition Multiple** | 5.5 - 6.5x | 5 - 5.5x | 10-12x |
| **Major Players** | mydentist (Carlyle and Palamon Capital)<br>Bupa Dental<br>Rodericks Dental (CBPE)<br>Portman Dental (Core Equity)<br>Dental Partners (August Equity) | IVC (August Equity)<br>CVS Group (KKR)<br>Vets4Pets<br>Companion Care | IVC (EQT)<br>Vet Partners (Ares)<br>CVS Group (Public)<br>Vets4Pets (Public)<br>Linnaeus (Mars)<br>Medivet (Inflexion) |
| **Major European Players** | European Dental Group (Nordic Capital)<br>Curaeos (EQT)<br>Colosseum Dental (Jacobs Holdings) | Anicura (Nordic Capital)<br>Evidensia (Valedo Capital) | Anicura (Mars)<br>IVC Evidensia (EQT) |

Group was acquired by G-square while Advent International acquired Spanish-based Vitaldent."

Despite the similarities, however, dentistry will be a tougher nut to crack than veterinary. Dhami explains: "In both dentistry and vets, consumables (including drugs) are the largest cost item outside of staffing. For a typical independent vet practice, this may constitute up to 25-30% of revenue. Rebates negotiated by larger groups are up to twice as large as independents, peaking at 40% for the largest vet chains. Comparatively, in dentistry, the size of this opportunity is smaller as consumable and lab services comprise just 10-15% of a typical independent practice's revenue. Consequently, post-synergy EBITDA multiple reductions seen after 24 months are much lower for dentistry.

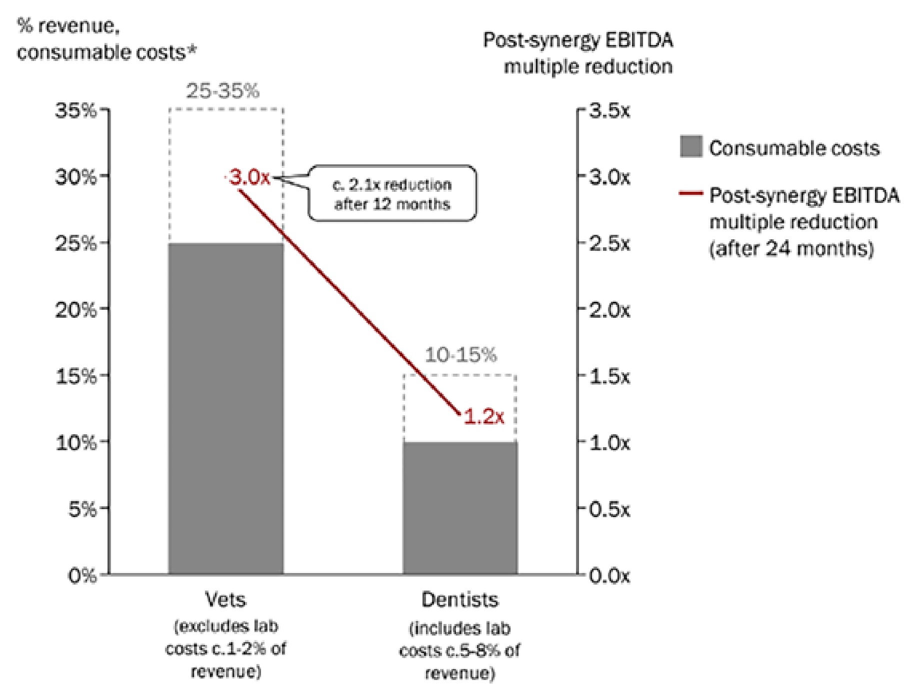
"It remains possible to extract cost synergies through vertical integration with dental labs, or use of digital CAD/CAM machines. Dental crowns cost ~£30 per unit when ordered from labs but only £5-£9 to manufacture. Buying into this concept, both Nordic Capital's platform and mydentist have acquired dental labs, though are yet to extract the synergies. However, there are some barriers to adoption as most dentists have historically chosen their own preferred lab provider, so restrictions are met with resistance, and capex requirements are high. In contrast, vet lab service costs only comprise 1-2% of revenue; therefore, only CVS have entered this adjacent market as synergies are limited, and veterinary drug manufacture entry barriers are too obtrusive."

There are differences in acquisition too. Dhami's Mansfield colleague, analyst Abhishek Patel explains using the UK as an example: "Traditionally, the natural successor for a vet or dental practice would be the associate who has worked there for several years. This has changed dramatically in vets, where over 75% of UK practices which change owner are now acquired by a corporate group rather than another vet. In contrast, only 10-15% of UK dental practices are acquired by corporates, but a similar trend to vets is emerging.

"Industry surveys suggest fewer associates desire to own practices, preferring to work part-time instead. This is partly driven by the feminisation of both professions; most vet and dental graduates are now female, who are typically more likely to work part-time when starting a family. Secondly, associates are less able to afford the equity buy-in to purchase practices, driven by slow wage growth in both professions. However, the average dentist earns double the amount as an average vet, so this effect is most pronounced for the latter. Coupled with increased graduate debt from rising student fees, many associates are now more risk-averse, and thereby value the financial security of working under a corporate."

**"Despite the similarities, however, dentistry will be a tougher nut to crack than veterinary."**

**DENTISTS - VETS: CONSUMABLE COSTS AND EBITDAR MULTIPLES**

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## At a tipping point

The shift to group consolidators was fuelled more by the increase in multiples than anything else, however. Mansfield's analysis of the dental market suggests most independent practice owners would struggle to pay multiples above 7x EBITDA for a 'typical' three chair practice while acquisition multiples have risen to 5.5-6.5x, and ~90% of practices changing hands are still bought by associates. Once multiples increase above the 7x threshold, however, it predicts a similar shift toward corporate acquisition, and subsequent rapid consolidation of practices as seen in vets from 2014. Patel explains: "The need to pay higher multiples to outcompete dental associates reduces potential arbitrage value relative to vets, which is why dentistry has been the last major retail healthcare service, after vets, opticians, and pharmacies, to consolidate."

Take the UK, again, as an example. Today, most UK vets work in corporate groups, and there has already been a cultural shift towards corporatisation. However, dentists have proven more difficult to integrate, as illustrated by recent performance declines for the top three groups mydentist, Bupa and Colosseum. All three have underdelivered volumes on NHS contracts due to productivity issues, despite the apparent time-saving benefits of integration (some practice owners claim business administration consumes 40% of their time). Mydentist alone faced clawbacks of £57m in 2017 after missing targets.

Recruitment problems are at the core of productivity problems. Dhami explains: "Some corporates are in locations with dentist undersupply, while some dentists have a personal aversion to working in corporates with standardised practices and processes. Consequently, these corporates are often forced to use locums and foreign-trained dentists, who on average are less productive owing to less familiarity with patients, systems, and language barriers. Our analysis of the GDC register suggests approximately half of the workforce in these three corporates originate from overseas, twice as much as the sector average. Consequently, they have slowed M&A activity in the first half of 2019, to instead improve integration."

HBI's Intelligence Centre puts the UK dentistry market in 2017 at around €8.1bn (£7.1bn). The NHS was 48% of that value, but 73% of the volume while private pay was 52% of the value and 27% of the volume.

But Dhami says the acquisition runway "is shorter than it appears": "Network referrals between practices are common for vets but are virtually non-existent in dentistry (other than specialist/orthodontist cases) – so the scale of individual sites is pivotal to profitability. Practices with fewer than three chairs are sub-scale (and even uneconomical) for corporates, but more than half of independent practices have only one or two chairs, and in many cases are based in converted residential properties. However, many of these smaller practices have capacity to increase the number of chairs by, for example, converting unused rooms.

"While this does not present a challenge in such a fragmented market in the short-term, investors may later look to adopt successful strategies from other healthcare roll-ups. For example, Irish GP practices are mostly based in small, converted residential homes with 1-2 consulting rooms. Emerging corporate groups have been acquiring multiple practices in an area and consolidating them onto a new, single purpose-built site, transferring state contracts which often have geographical limits. However, ownership regulations across Europe will dictate the rate of consolidation."

**OUR ANALYSIS:** We're still waiting for the creation of a truly pan-European group. Germany remains the one to watch in our view, while Italy and the Netherlands are both interesting.

Mansfield is right when it says the roll-up will not be as simple as in veterinary – see our recent stories on Curaeos, and on the possible sale of IDH in the last couple of weeks. But these are big markets and we have no doubt a savvy investor will further capitalise on the significant opportunity this affords in the coming years, in a market where PE may see independent practice owners priced out of the market.