

HEALTHCARE CONSULTING: MARKET OVERVIEW

AS THE NHS GRAPPLES WITH PERSISTENT PRODUCTIVITY AND CAPACITY CHALLENGES, DEMAND FOR HEALTHCARE ADVISORY SERVICES CONTINUES TO RISE. OUTSOURCING IS PLAYING A CRUCIAL ROLE IN ALLEVIATING HEALTHCARE DEMAND, ENHANCING EFFICIENCY AND FACILITATING BETTER PATIENT OUTCOMES

**COOPER PARRY
DEALS**

REACH

MARKET DYNAMICS

Favourable market dynamics creating opportunity for consulting firms that can demonstrate cost-savings to the NHS

Market dynamics



£732m
Market size



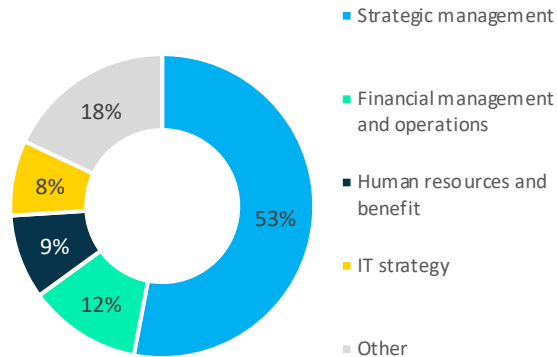
8.2%
Historical market growth
(CAGR 2018-2023)



40%
Market share of the top four firms

- UK market demand in the Healthcare Consulting space is heavily linked to the total capital and revenue expenditure by the NHS
- The NHS is increasingly turning to outsourced service providers to provide skills and capacity which the NHS lacks in-house
- Core consultancy services that provide cost-savings and drive efficiencies can help alleviate pressures in areas where systemic issues remain (e.g. maintenance and elective care backlog)
- The market for consulting services, particularly into the NHS, is viewed as highly defensible given historic lack of capital investment which has contributed to clinical pressures and uncertainty around future strategy and planning
- Governments around the world, including the UK are continuing to invest in healthcare with social and political pressures mounting to ensure this is sustainably increased
- A changing political landscape in the UK is likely to bring uncertainty to the consultancy market. However, long-term committed spending should underpin demand for external specialists
- Markets that are in high demand within the NHS include strategy and planning, infrastructure solutions, project management and property consultancy

Healthcare consultants revenue streams



NHS capital spend ~ £9.2bn

NHS capital spend across all addressable services

Spend on consultancy services ~ £700m

Proportion of NHS capital investment spent on all external advisors

Spend on high demand services ~ £290m

Proportion of external advisory spend on high demand services including strategy and planning project management and infrastructure solutions

Source: Gov.UK, NHS Digital, Cooper Parry Analysis

MARKET DRIVERS

Demand for healthcare advisory services continues to grow

Market drivers		
Driver	Commentary	Outlook
Population demographics – long-term NHS demand	By 2030, the UK is expected to have an additional c.2m adults aged 30+, whilst, by 2040, the number of people living with major illness is forecast to increase by 37%. The UK health system will likely need to continue adding capacity to serve the increased demand, which is expected to be supported by outsourced services	
Waiting lists – near-term NHS demand	The NHS continues to be under clinical pressure with waiting lists for elective procedures increasing significantly since the pandemic. Rising demand for insourcing of clinicians to deal with the backlog and a need for greater control over the strategic planning of resources is underpinning the role of external consultants	
NHS capital budgets	Historic underinvestment during the 2010s by the NHS in its estates and infrastructure has led to a rapidly increasing repair backlog, up to £11.6bn in 2022/23. More than half (54%) of the backlog relates to ‘high or significant risk’, with the ‘high risk’ backlog increasing by more than £550m on the previous period. Capital investment projects such as the New Hospital Programme (NHP) should provide advisory opportunities in the future	
Resistance to NHS in-housing model	With increased reliance on and full disclosure of the NHS’ spend relating to outsourced consultancy work, there is a strong desire to internalise NHS services. Given the project-based nature of many of the change programmes surrounding strategy and planning and infrastructure, in the short-term it is unlikely the NHS can model its resourcing and development plans to remove the need for outsourcing	
Net Zero targets	With net zero a target for the NHS by 2040, consultancies are seeing opportunity in offering additional project support capabilities in this space, with many taking advantage to embed services and cross-sell from there	
Price expectations	Within the NHS SBS framework, consultancies bidding for tenders have seen a significant number of inflationary rises accepted upon negotiation. This provides scope and opportunity for individual negotiations on a project-by-project basis, particularly for work contracted outside of the framework	

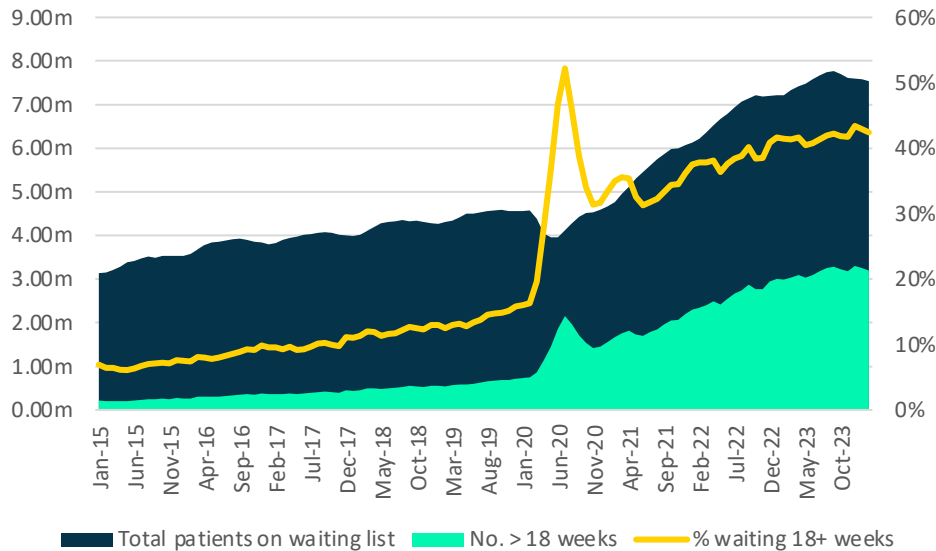
Source: Gov.UK, NHS Digital, Cooper Parry Analysis

AN NHS UNDER CLINICAL PRESSURE

A core market for healthcare advisory firms remains addressing the NHS' clinical capacity

Increasing NHS waiting lists

NHS England Referral-To-Treatment (RTT) waiting list figures



- The number of incomplete pathways has shown an increasingly growing trend since the Covid-19 pandemic creating a backlog in the availability and ability to perform operations. Commissioner feedback suggests it will take two to five years to clear the backlog given current capacity and funding
- This is further outlined through the increased waiting times for individuals to receive care, with a significant proportion of the backlog waiting over the 18 weeks threshold and does not consider the 'hidden backlog' of patients due to reprioritisation due to the pandemic
- The problem has been further compounded by the workforce shortages that are facing the healthcare profession, with the supply of doctors and nurses in full-time employment failing to keep pace with the needs of the population

Source: Gov.UK, NHS England, British Medical Association

The insourcing solution



Clinical insourcing teams reduce waiting list backlogs by deploying specialist consultants and clinical capacity



Preferred over outsourcing as the NHS largely retains clinical autonomy whilst utilising an economical approach to delivering elective procedures



Provides flexible long-term support if required or can be brought in to solve a specific issue, improving pathways and leaving sustainable tools and systems in the form of sound clinical governance



Often a cost-effective solution with providers usually charging at significant discounts to tariff rates

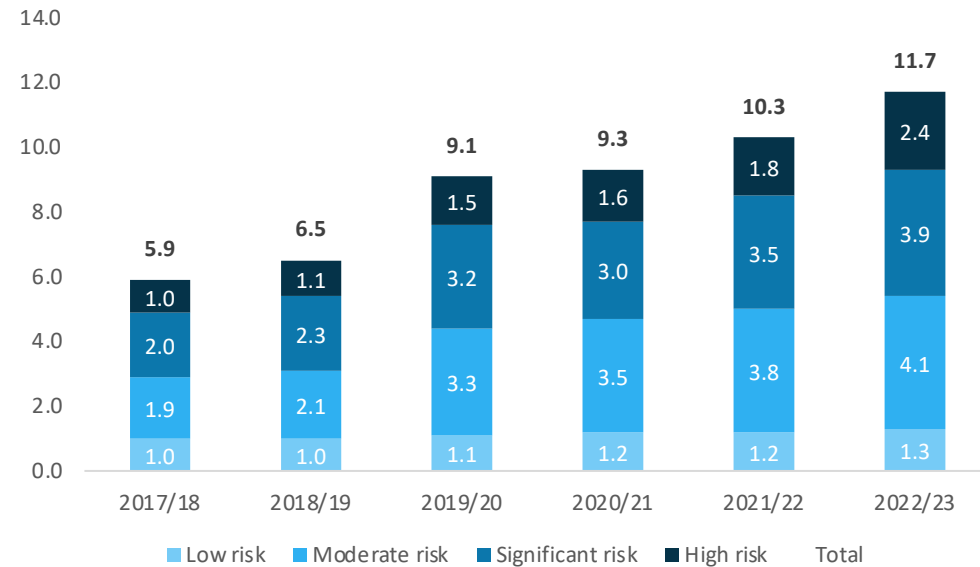


The insourcing market is expected to grow at c.11%-16% from FY22 to FY27

CAPITAL AND CRITICAL MAINTENANCE BACKLOG

Capital investment requirements and underfunded NHS estates will provide a sustainable market opportunity in estate advisory

Total cost to eradicate NHS maintenance backlog (ERIC data) (£ billions)



	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
In-year investment to reduce backlog	£404m	£434m	£516m	£895m	£1,406m	£1,382
% share of backlog covered	7%	7%	6%	10%	14%	12%

CAGRs	17/18-22/23
High risk	19%
Significant risk	14%
Moderate risk	17%
Low risk	5%

Source: Gov.UK, Department for Health and Social Care, Estates Returns Information Collection (ERIC)

Long-term advisory opportunities

- The ongoing need for investment should provide a positive outlook for advisory services. Capital budgets are forecast to increase to £12bn a year from 23/24 which is seen as a reliable indicator for budgets allocated to estate advisory work
- Historical increases in investment to address the backlog have now stalled, contributing to a worsening position across NHS estates at all risk levels
- The National Audit Office (NAO) estimates that c.£4.3bn in capital funds were transferred to revenue budgets between 2014-19 by NHS Trusts, contributing to a worsening repair backlog as day-to-day operational spend was prioritised

Capital commitments – New Hospital Programme

- The New Hospital Programme (NHP) was launched to build 40 hospitals in England by 2030 with the total expected cost to be in excess of £20bn
- Given the project-based nature of NHS capital investment programmes, the NHS continues to depend heavily on external consultants with 62% of posts relating to NHP filled using consultancy services in 2023
- Despite a desire within the NHS to reduce use of external consultants, market sentiment suggest it is unlikely to have the required skills and capacity in-house to run its own estates advisory programmes

THE POLITICAL LANDSCAPE

Political change and associated market risks are mitigated by the needs-driven nature of healthcare advisory work

Risk	Key headlines	Outlook for Healthcare Consultancies
<p>Change of government</p>	<ul style="list-style-type: none"> ▪ The prospect of a change in government is on the horizon with a general election looming. There is no clear long-term link between healthcare spending and political party – the outlook is generally positive on NHS spend regardless of the election outcome 	<ul style="list-style-type: none"> ▪ Given the pressures the NHS is facing, it is unlikely a change of government will change the fundamental need for investment and external expertise ▪ Labour have emphasised intentions to continue to support the NHS financially which should be positive for advisory work
<p>Trajectory and stability of funding</p>	<ul style="list-style-type: none"> ▪ The NHS has remained protected against the most severe cuts made to funding for public services in the UK over the last decade ▪ Inflationary pressures and inefficiencies within the NHS have raised concerns that future budgets may be tightened which could impact propensity to outsource 	<ul style="list-style-type: none"> ▪ The trajectory of funding for the NHS is extremely positive as it will likely continue to receive strong government support in both funding and rhetoric under the any political administration
<p>ICB strategy and planning</p>	<ul style="list-style-type: none"> ▪ The variance in decision-making processes between each ICB should be considered a possible risk, with difficulty predicting how each individual ICB will approach the use of specialist consultancies 	<ul style="list-style-type: none"> ▪ DHSC has encouraged partnerships to explore how data and information can be shared more safely and appropriately between system partners and across systems ▪ This should provide consultancies the opportunity to support ICB's on digital capabilities as well as strategy and planning
<p>Procurement frameworks</p>	<ul style="list-style-type: none"> ▪ Despite mixed political sentiment towards healthcare consultancies, restrictions around procurement frameworks remain limited ▪ Fiscal conservatism remains a focus however, with expectations around public procurement focusing on value for money and efficiency 	<ul style="list-style-type: none"> ▪ Current procurement frameworks used to commission the services of consultancies are seen as working well within the health sector ▪ Demonstrable efficiency-generating advisory services are unlikely to see a change in demand with significant cost benefits

Outlook key

Negative
 Moderate
 Positive

Source: Cooper Parry analysis

RELEVANT TRANSACTIONS

Relevant market transactions across the healthcare services space



Deal date: Jun-23

Deal details: £9m minority investment

Target description

- Archus provides a wide range of strategic and infrastructure consultancy and analytics services to health and social care organisations

Transaction rationale

- BGF's investment will enable Archus to grow its existing management team, with additional senior hires planned to aid growth, as well as enabling on-going innovation and expansion of the firm's service offerings



Deal date: Feb-24

Deal details: n/d

Target description

- HBSUK is an online outpatient service provider which helps to deliver safe and effective treatment in a fast and efficient way
- The business provides digital triage through an application whilst also operating an NHS clinical insourcing model

Transaction rationale

- The acquisition continues AXA Health's drive for consistent, safe, effective and appropriate care for members, as well as expanding to allow direct access to clinician care



Deal date: Feb-24

Deal details: PE-backed investment (NorthEdge)

Target description

- A market access consultancy intended to support pharmaceutical and healthcare companies in getting their products to market and ensuring patient uptake

Transaction rationale

- The acquisition will add another dimension to the capabilities of Helios Global Group, providing greater insights for clients around launch, and furthering the company's mission of improving global health outcomes

Source: Mergermarket, Pitchbook, press releases

COOPER PARRY CORPORATE FINANCE

TRUSTED ADVISORS WITH A SPECIALISM IN HEALTHCARE

NIALL CHANTRILL PARTNER

Niall joined Cooper Parry in 2011 and has spent the last 10+ years working with entrepreneurial businesses and private equity clients operating across the mid-market.

Niall has a strong focus on working with businesses and entrepreneurs in the Healthcare and Technology sectors.

Notable deals include:

- Advised the shareholders of Nourish on the MBO backed by Livingbridge
- Advised WestBridge on their investment in Bespoke Health and Social Care (now Acuity Care Group)



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LOREN DOCKSEY SENIOR ANALYST

Loren joined Cooper Parry Corporate Finance in 2020 as an analyst, reviewing behaviour, trends and analysing M&A activity within our sector specialisms.

Loren is a Trainee Chartered Accountant and holds a first-class honours degree in Economics from the University of Derby.

Notable deals include:

- Acquisition of mobility devices provider Kingswood Corporation by LDC
- Sale of Tri.x to August Equity
- Live sale of a healthcare services business



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OUR RECENT HEALTHCARE DEALS



- Nourish provides digital care planning software to the UK social care sector
- Founded in 2011, Nourish is a cloud-hosted Digital Care Planning Platform supporting care providers and carers in the evidencing, and accessing of care records
- Livingbridge's investment will enable Nourish to further develop its best-in-class platform, continue to innovate in the use data to improve care outcomes



- Tri.x provides subscription-based on-line policies and procedures manuals to the UK social care sector and has been part of Birmingham-based Antser Group since it was acquired in 2019
- August is a long-term investor with particular emphasis on businesses with technology-led applications

£200m+

TOTAL DEAL VALUE
ADVISED ON

£22m

AVERAGE DEAL SIZE

75%+

DEALS INVOLVING
PRIVATE EQUITY

2/3

OF DEALS WORKING
SELL-SIDE

COOPER PARRY
DEALS REACH