

HEALTHCARE SERVICES H1-24 MARKET OVERVIEW

PROVISION OF HEALTHCARE SERVICES IN THE UK IS HIGHLY TOPICAL. THE SECTOR IS NAVIGATING POLITICAL CHANGE AMIDST THE BACKDROP OF STRAINED PUBLIC HEALTH SERVICES

THIS MARKET OVERVIEW COVERS:

- **Market Dynamics**
- **Key Drivers of the Private Provider Market**
- **M&A Market Trends**
- **Recent Transactions**

OVERVIEW & MARKET DYNAMICS

INDEPENDENT HEALTHCARE SERVICE PROVISION ON THE RISE WITH FAVOURABLE MARKET CONDITIONS



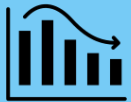
£11.5bn

NHS spend on private providers in 2023



£600m

Increase in NHS private sector spend in 2023

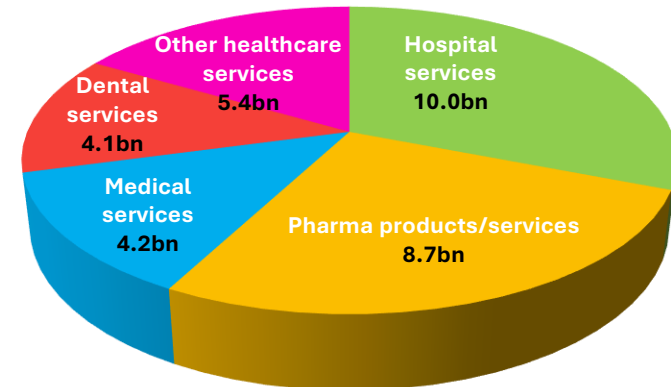


£6.7bn

Decrease in NHS DHSC's total budget in 2023

- The market for Independent Service Providers (ISPs), those that typically support the NHS in its clinical capabilities whilst also providing private care, continues to grow as total spend on ISPs increases across the private and public sectors
- The NHS continues to struggle with capacity across the board and the use of ISPs is fundamental in the short term to alleviate pressures
- NHS commissioner spending on private providers went up to 6.5% of total expenditure in the latest Department for Health & Social Care (DHSC) accounts. Reflecting the pre-Labour NHS England policy of encouraging ICBs to increase the use of private hospitals and clinics
- Despite a change in government and the inevitable microscope placed on NHS outsourcing, there remains opportunities for private providers. Particularly with long-term NHS initiatives like the new hospital programme, an example of necessary private partnership
- On the private side, 55% of consumers have never used a private healthcare service, evidence of a large addressable market for private healthcare service providers

Private consumer spend on healthcare services in 2023 (£)



KEY MARKET THEMES

Relatively sluggish M&A market in H1 of 2024

The UK healthcare M&A market has had a slow start to the year. Deals volumes are yet to fully rebound from the downward trends of 2023. The capital markets have presented challenges. Corporates are doubling down on cash retention due to more expensive debt and private equity firms are seeing longer lead times on fund raises. However, green shoots are present as vendors adjust to slightly lower value expectations. Deals are still being done for businesses delivering high-quality services in nascent markets.

Changing political landscape

Provision of healthcare is heavily impacted by changes in government policies and regulation. As the new Labour government takes the reins on the NHS, they will inherit c.7,500 contracts for healthcare services with private companies. Worth a total of £29bn, 94% of which are set to expire during their first term in government. It remains to be seen how the government will structure NHS expenditure. It's likely that change is coming to frameworks and more rigorous contract tendering.

NHS under pressure

Long-term under-investment has left the NHS grappling with workforce shortages. Leading to expanding waiting lists and an organisation stretched beyond capacity. Private sector contracts have been a fundamental element of the recovery plan. ISP provision is seen as a key pillar of support for the NHS long-term. The extent to which the NHS embeds the private-sector relationship remains unclear. However, longer waiting lists are driving more patients to seek private healthcare, which points to a positive outlook for the sector.

KEY DRIVERS OF THE PRIVATE PROVIDER MARKET

SUSTAINABLE MARKET DRIVERS SHOULD UNDERPIN FURTHER OPPORTUNITY IN THE SECTOR

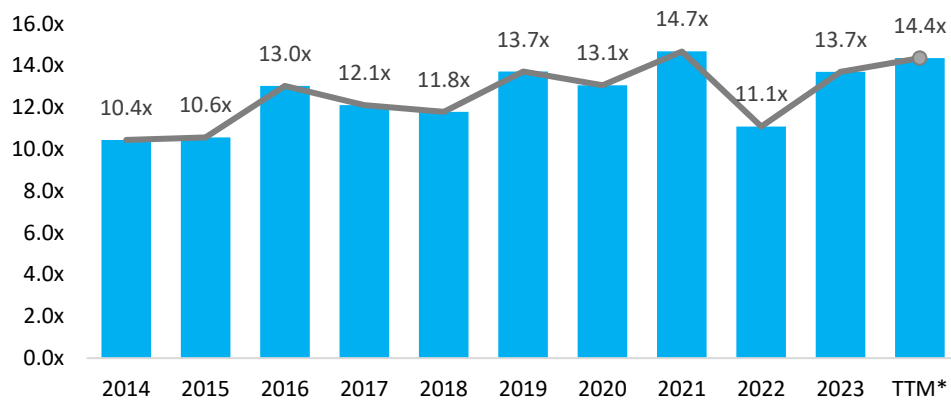
Market drivers			
	Driver	Commentary	Impact
Regulatory & Political	Implementation of new initiatives and tightening of tendering	The NHS has begun implementing several initiatives aimed at improving efficiency. Coupled with tighter, more rigorous tendering, the regulatory environment for private providers is uncertain with the scale at which these initiatives will reduce the reliance on the private sector unknown	
	Public pressures	The public sentiment around private provision in the NHS is mixed. Concerns around privatisation of the NHS are persistent. Ultimately, however, private provision is economically viable to address backlogs and manage expanding waiting lists	
	Government commitment to improving the NHS	Despite the recent change in government, there remains a period of uncertainty for private healthcare providers as we await policy changes. However, a general alignment on outcomes-based care and increasing NHS capacity should provide opportunity for private and public care to form long-term partnerships	
Market Demand	Strong underlying market tailwinds	An aging population, economic growth and healthcare innovation are boosting healthcare demand in the UK. On the public side, funding remains stable for outsourced contracts where the care is needs-driven and has demonstrable benefit for both the NHS and the service user	
	Innovation in the private sector	NHS adoption of developing technologies has traditionally been slow. However, investment in digitisation and the growing innovation in sub-sectors such as telemedicine, AI-driven diagnostics, and wearable health devices, are expanding the capabilities of private healthcare providers. Patients are increasingly seeking out private healthcare services that offer advanced treatment options.	
	Development of nascent markets	Ongoing research and development in developing areas of healthcare is creating an expanding market for services. Nascent markets like neurodiversity, for example, are experiencing high growth with significant opportunity for application in corporate settings	

Source: Laing Buisson, The Kings Fund, Cooper Parry analysis

HEALTHCARE M&A MARKETS

HEALTHCARE DEAL FLOW FOLLOWS WIDER MARKET TREND. GREEN SHOOTS REMAIN IN A MARKET FAVOURED BY INVESTORS

Private company healthcare EV/EBIDTA multiples



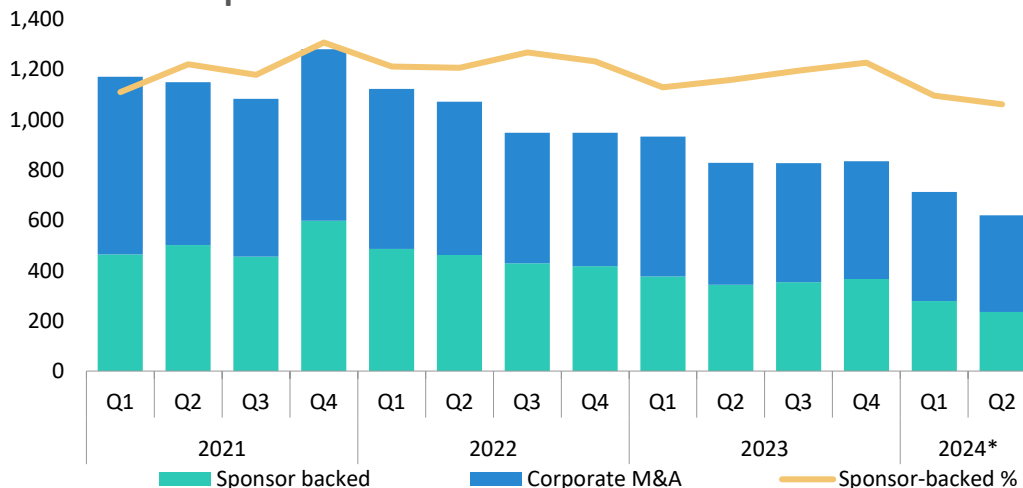
Buoyant valuations

Amidst downward deal volume trends, Healthcare M&A pricing has been robust. Dry powder remains a theme amongst private equity investors. Healthcare is seen as a favourable sector due to its macroeconomic resilience. In the lower mid-market, there's a clear trend of high single-digit pricing for high-growth businesses under £10m EBITDA, who can demonstrate a mature customer base with innovative and high-quality service provision.

Private equity appetite remains strong

Investors remain in the market for good-quality assets despite a dip in overall M&A volumes. Sponsor-backed M&A in healthcare as a percentage of deal volumes remains steady. Private equity investors are choosing to hold assets for longer and execute buy-and-build strategies.

Sponsor-backed M&A deal volume - Healthcare



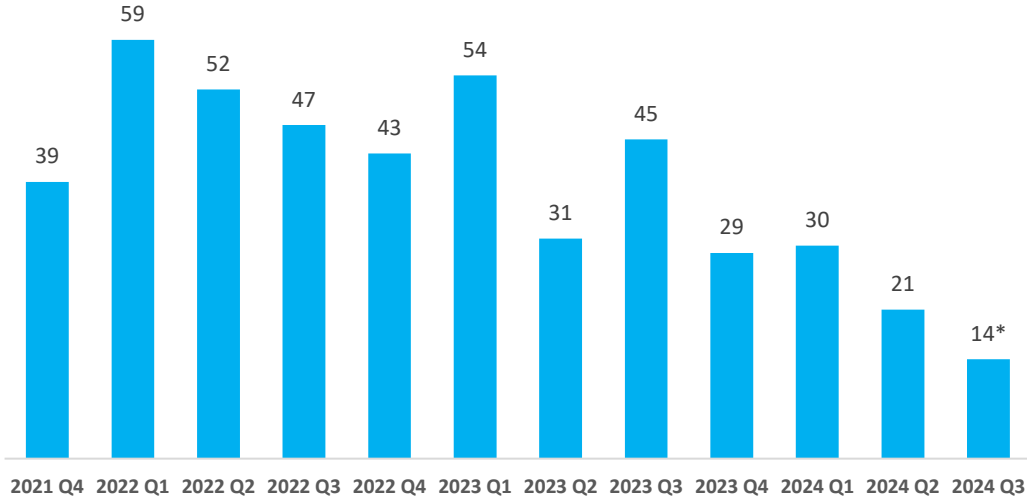
Healthcare Services	Average multiple (EBITDA <£10m)*
Clinics/Outpatient Services	8.7x
Diagnostic Equipment	8.9x
Distributors (Healthcare)	9.1x
Hospitals/Inpatient Services	11.1x
Human Capital Services	8.6x
Laboratory Services (Healthcare)	10.0x
Medical Supplies	8.2x
Monitoring Equipment	11.8x
Other Healthcare Services	9.8x
Surgical Devices	8.8x
Therapeutic Devices	9.9x
Healthcare Services average	9.5x

Source: Pitchbook, Cooper Parry analysis * - average multiple last 10 years

UK HEALTHCARE M&A

INNOVATIVE PRIVATE PROVIDERS SERVICING THE NHS ARE HIGHLY SOUGHT AFTER ASSETS

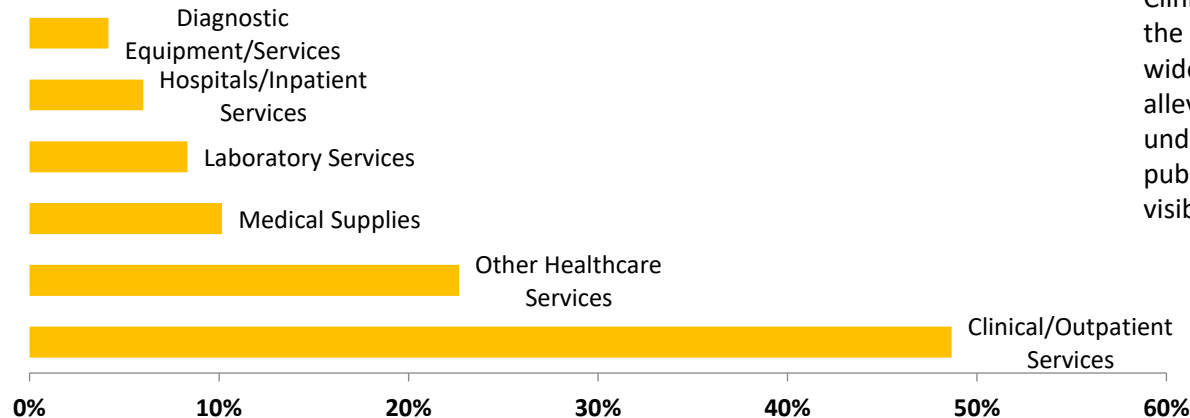
UK Healthcare Services deal volume



UK deal trends

UK healthcare M&A markets have experienced a sluggish start to 2024. Deal volumes are climbing down from heights seen in 2021/22 post-pandemic and in line with wider M&A trends. Advisors and investors are noting greater positivity in the market with H2-2024 seen as a 'turning the corner' period of dealmaking. Political stability, a clearer macro picture and potential CGT changes on the horizon could drive deal flow for the remainder of the year.

UK Healthcare Services deals by sub-sector



Strong sub-sector focus

Clinical services make up almost 50% of deal volume in the wider Healthcare Services sector. This is part of the wider trend of independent service providers alleviating pressures on the NHS. Investors favour the underlying demand dynamics of services into the public sector with mature contracts and revenue visibility key value drivers.

Source: Pitchbook, Cooper Parry analysis

SELECT NOTABLE TRANSACTIONS

PRIVATE EQUITY AND TRADE ARE CONTINUING TO EXECUTE TRANSACTIONS ACROSS THE HEALTHCARE SERVICES ARENA



Aug-24 CVC DIF invests in Medneo UK

- CVC DIF, the infrastructure strategy and investment arm of global private equity firm CVC Capital, has backed Medneo UK, a mobile diagnostic imaging company, specialising in MRI and CT services
- A leading provider of diagnostic imaging services to NHS Trusts and healthcare providers across the UK, Medneo provide MRI and CT imaging services to more than 130,000 patients a year through its fleet of more than 20 state-of-the-art mobile scanners



Jul-24 Northedge invests in Latus Group

- Northedge Capital invested in occupational health service provider, Latus, to accelerate growth organically and through a selective M&A strategy
- Latus works with businesses to deliver world-class health strategies to support regulatory compliance; improve colleague health & wellbeing and enhance employee engagement – in turn reducing absenteeism and relieving wider pressures on the NHS through a preventative approach to health.



Jul-24 LDC invests in diagnostic services provider

- LDC invested £50m in Irish healthcare equipment and service provider, Medray Group, a leading provider of diagnostic imaging equipment to customers across the healthcare, veterinary and dental markets in the UK and Ireland, servicing around 2,700 customers
- Providing an exit for Irish investor Erisbeg, LDC will back Medray to pursue a growth strategy underpinned by investment in its sales team and bolt-on acquisitions



SEP-23 Nourish acquires CarePlanner

- Agathos completed a majority investment into Lexxic, a UK neurodiversity assessment services and accreditation provider
- Lexxic partners with corporates to create Neurodiversity Smart workplaces and deliver psychological support services to neurodivergent talent
- Agathos has backed the management team to accelerate growth through the expansion of existing and new services, focussing on the delivery of high-quality psychology services

COOPER PARRY DEALS

TRUSTED ADVISORS WITH A FOCUS ON M&A ADVISORY SERVICES FOR HEALTHCARE COMPANIES

OUR DEDICATED HEALTHCARE TEAM



ANDY PARKER
PARTNER

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Andy leads Cooper Parry's Corporate Finance business across the Midlands and has 30 years' M&A experience, the majority at PwC where he was a regional partner



TOM SUMMERS
PARTNER

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Tom joined Cooper Parry Corporate Finance in 2017 and has over 8 years' experience working in corporate finance



SACHIN PARMAR
**ASSOCIATE
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Sachin joined Cooper Parry Corporate Finance in 2019 and has over 6 years' experience working in corporate finance



KATIE CASH
MANAGER

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Katie joined the Cooper Parry Corporate Finance team in 2021 having worked in the Cooper Parry audit team beforehand



LOREN DOCKSEY
SENIOR ANALYST

lorend@cooperparry.com

Loren joined Cooper Parry Corporate Finance in 2020 as an analyst, responsible for commercial analysis and production of marketing materials

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 Anster Group since it was acquired in 2019
- August is a long-term investor with particular emphasis on businesses with technology-led application



Provided advice and project management on the investment by Westbridge into Bespoke Health & Social Care



The sale of Bryn Melyn Care, a leading provider of specialist residential care for children and young adults, to Outcomes First Group



Advised on the sale of Tanglewood as it was acquired by Elevation Partners



Buy-side advice to Livingbridge in their investment in wheelchair services provider, AJM Healthcare



Sell-side corporate finance advice to the shareholders of Genesis Dental (now Dental Partners) on their sale to August Equity